

# Accounting

Classes Nine-Ten



NATIONAL CURRICULUM AND TEXTBOOK BOARD, BANGLADESH

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as a textbook for classes nine-ten from the academic year-2013**

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# **Accounting**

## **Classes Nine-Ten**

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## Preface

The aim of secondary education is to make the learners fit for entry into higher education by flourishing their latent talents and prospects with a view to building the nation with the spirit of the Language Movement and the Liberation War. To make the learners skilled and competent citizens of the country based on the economic, social, cultural and environmental settings is also an important issue of secondary education.

The textbooks of secondary level have been written and compiled according to the revised curriculum 2012 in accordance with the aims and objectives of National Education Policy-2010. Contents and presentations of the textbooks have been selected according to the moral and humanistic values of Bengali tradition and culture and the spirit of Liberation War 1971 ensuring equal dignity for all irrespective of caste and creed of different religions and sex.

The present government is committed to ensure the successful implementation of Vision 2021. Honorable Prime Minister, Government of the People's Republic of Bangladesh, Sheikh Hasina expressed her firm determination to make the country free from illiteracy and instructed the concerned authority to give free textbooks to every student of the country. National Curriculum and Textbook Board started to distribute textbooks free of cost since 2010 according to her instruction.

The textbook **Accounting** has been developed for classes Nine-Ten in line with the new curriculum in the backdrop of changed at the beginning of the twenty-first century containing the massive changes in learners' attitude and demand.

Considering the challenges and commitments of 21<sup>st</sup> century and following the revised curriculum the textbook has been written. Recently the national evaluation and tryout program has been completed to make correction and revision of the textbook. I hope the outcomes of the program will be reflected in this revised edition. We will continue our effort to make the next edition of this book more beautiful, decent and free from any types of errors.

I thank sincerely all for their intellectual labor who were involved in the process of revision, writing, editing, art and design of the textbook.

**Prof. Narayan Chandra Saha**

Chairman

National Curriculum and Textbook Board, Bangladesh

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# Chapter One

## Introduction to Accounting

Economic events are visible in personal, institutional in fact in every sphere of the society. The number of these events is many and diversified. Without the proper technique and its application, it is impossible to know the overall impact of these events. Accounting is the process that deals with the overall result and impact of these economic events. Various stakeholders both internal as well as external are keenly interested to know about the information of accounts. Therefore, accounting takes initiatives to record and analyze those transactions and report those to its stakeholders.



### Environment and Accounting

**At the end of this chapter, we will be able to**

- Generate idea about accounting
- Describe the objectives of accounting
- Describe the necessity and importance of accounting
- Narrate the history and evolution of accounting
- Identify the users of accounting users
- Explain the roles of accounting in creating sense of value and accountability
- Be interested in keeping accounts in daily, personal, family as well as in institutional activities

## Concept of Accounting

Accounting is the process by studying which the various financial activities of a person or an institution i.e. expenses paid, receive income, purchase and sale of assets, buying and selling of goods, receive from debtors and pay to creditors etc. are correctly recorded in different books of accounts and determine their actual result after a certain period. In accounting the economic transactions of a business are recorded, classified, and summarized. So, the financial position of a business can be ascertained which will lead towards taking proper decisions. The knowledge of accounting can be used to prepare different types of statements and reports to identify the financial condition of a firm. Therefore, accounting is called the 'language of business.' Accounting is that knowledge which helps us to record, classify and summarize the financial transactions that is eventually helpful to determine the overall financial condition of a person or an institution

**Activity:** Prepare a probable list of financial functions of an institution.

### Objectives and necessity of accounting:

1. Without proper recording of transactions, it is not possible to know the financial condition of a firm. Therefore, the foremost objective of accounting is to record the transactions properly into the books of accounts.
2. One of the main objectives of accounting is to ascertain financial condition and result. It is possible to locate the motion of a business through identifying the profit and loss. Recording all the incomes and expenses properly the profit and loss of a firm can be obtained.
3. The pen picture of financial condition can be seen by calculating the assets, liabilities, and owners equity of a firm.
4. Reducing cost can optimize the objective of a business. Accounting helps to record the expenses properly and thus helps reducing cost.
5. Accounting has no alternatives in controlling the fraud and forgery of a business firm. With proper recording of accounts, we can resist and control fraud and forgery.
6. Helps in informing financial condition to interested group and thus takes correct decision.
7. Financial information of the previous year helps in taking proper steps by making comparative study.

8. Determines the source of internal and external flow of money of various service oriented nonprofit organizations like schools, colleges, hospitals, clubs and societies and ascertain their accounts balance.
9. Govt. accumulates through collecting VAT, duties and taxes and contributes to different regular and development areas. The role of accounting is great in managing smooth functions of govt. Besides, the books of accounts and related documents are useful to a firm in many ways i.e. for bank or taking loan from money lending organization, fixing the sales price of a product, identifying future activities etc. The necessity of accounting is very much essential for keeping a fine, disciplined and a thrifty/frugal life. Without keeping accounts properly, the pros and cons of an organization can never be identified. Keeping records properly ensures cost control and wastage of a firm and thus attain financial solvency.

**Activity:** How can accounting help in your daily life?

### **The origin and evolution of accounting:**

From the history of civilization people used to keep records of different important events on the bark of trees, by drawing lines on stones in caves. Then they started living in groups and developed social attitudes. After that they involved themselves in agricultural activities. Later they learnt keeping accounts of stocks by making marks on the walls at home and making knots with the help of rope. Gradually the number of population increased, society erupted, exchange system developed, currency was introduced, and trade and commerce were initiated. Purchase-sales, income-expenses and other transactions started being recorded mathematically. In 1494, an Italian Mathematician wrote a book entitled 'Summa de arithmetica, geometria, proportioni et proportionalita' (The Collected Knowledge of Arithmetic, Geometry, Proportion and Proportionality) and explained the basic principles of book keeping through the double entry system in it.

With the passage of time, progress also occurred in science, technology and in business and as such accounting developed. The stature of business grew from small to large. The use of accounting is visible/ applied in personal and familial life along with commercial, non-commercial, govt. and non-govt., profitable and in non-profitable organizations.



The development of accounting is related to the development of science and technology. Now a days accounts are kept in computers rather manually. It saves time and labour as well as helps organization taking desired decision.

**Activity:** How does science and technology improve accounting?

### Users of accounting information:



Accounting is known as an information system. Thinking about the internal and external users of accounting, reports and records of transactions are kept and statements are published.

#### Internal Users

1. **Owners and managers:** Accountants prepare books of accounts and other necessary documents. The owner, as well as the manager, tries to identify profit and loss and financial condition from this statement. So, future course of action can be ascertained.

#### External

1. **Loan/ credit providers:** Before granting loans to the recipient organization, the credit providers analyze its financial conditions whether it might be able to pay back the loan or not.
2. **Govt.:** Concerned authority of the govt. might look into the accounts and check whether organizations pay their rates, taxes, and VAT and for taking necessary measures.
3. **Creditors:** Before allowing credit sales, the creditors always want to ensure that the recipients are in a financial state of paying back the due amount. This can only be possible by seeing the records of accounts.

4. **Workers and officers:** Workers and officers of organizations take the assistance of the financial statements to know and have their benefits from the profit of the organization. Besides, auditors, investors, consumers and other concerned persons also use accounting information.

**Activity:** Prepare separate lists of internal and external users of accounting information.

### **Relation of accounting system with society and environment:**

Accounting is not merely used for obtaining profit. Apart from making profit, it also contributes towards society and environment so that it is not affected by that. From the following illustrations, some contributions of accounting towards society and environment can be determined:



1. Organizations will contribute towards the resistance of environment pollution and accountant will keep its records. This record will tell us about the consciousness and contribution of that owner towards the society and environment. Especially the oil refinery companies contribute generously towards environment from being polluted.
2. Smoke emitted from industry and factories is injurious to human and environment. The owner and the accountant should spend a lot of money for protecting the environment issues. For this, government's rules and regulations must be followed.
3. While producing a product hygienic raw materials are used, less electricity is consumed, the sound of machines must be at a tolerable limit, and garbage should be dumped in proper places. To ensure these some expenses are to be made. Besides allocating this fund, an accountant must also make proper records of those expenses.
4. Every Business organization has to spend some money as a part of social commitment, such as providing scholarships among poor and meritorious students. For this, accounts are to be kept for proper fund allocation.

**Activity:** Prepare a probable list of expenses of a firm that are beneficial to the society as well as to the environment.

### **Role of accounting in creating sense of value and accountability:**

Value is the combination of long-term beliefs, thought, concept, and perception that unite a specific standard that helps people accepting the right and ignoring the wrong. Accounting helps creating value perception in the following manner:

1. **Honesty and responsibility:** If accounting methods are followed properly while keeping accounts, corruption, fraud, and misappropriation of assets could be kept under control thus ensuring clarity in keeping accounts.
2. **Debt repayment consciousness:** Accounting plays a vital role in removing the mentality of becoming a defaulter of loan repayment. Therefore, it instills value perception of not becoming a defaulter.
3. **Creating religious sense of value:** Proper use of God-gifted resources and reducing unnecessary cost are part of religious value. If accounts are kept properly, the concept of, "cut your cost according to your cloth" can be hence practiced in both individual as well as institutional life.
4. **To be responsible towards society and state:** The main sources of income of govt. are VAT, customs, excise and income tax etc. By utilizing the concept of accounting, accounts are recorded properly hence, the dodging of tax pay tendency reduces.
5. **To Prevent fraud and forgery:** If proper accounts are kept the chances of fraud and forgery among the officers and the staff reduces at a substantial amount. As such, they become cautious of misappropriation of funds and reduce anomalies.

### **Accounting in accountability:**

If a specific responsibility is assigned to a single person, he will only remain responsible for that job. Remaining responsible to third party means accountability. The role of accounting is described in keeping this accountability into action:

- a) **Internal accountability of the firm:** In a modern decentralized system, people are empowered to deal with their income, expense, and investment so that they may focus and concentrate in accumulating results to their higher authority for answering their various queries.

**b) Accountability towards owners, creditors, and investors:** People involved in bookkeeping and management of a firm must make sure that the prepared statement gives a clear pen picture of the invested amount; the profit earned is in line with the invested profit. If found otherwise regarding economic accountability there can be a case of great anarchy in every economic and non-economic affair.

**e) Accountability towards Govt.:** Concerned authorities of the Govt. have legal right to see whether govt. rules are being followed properly or not in industry. They need to see whether govt. tax, VAT, and duties are being paid accordingly. Keeping books of accounts properly ensures such accountability.

## Exercise

### Multiple Choice Questions

#### 1. Accounting -

- a) Describes relationship with one another in society
- b) Describes about production systems
- c) Keeps accounts of Goods purchase and sales
- d) Recording, Classifying and Explaining of all financial transactions

#### 2. How can the desired result be achieved of Business organization?

- a) By purchasing Assets
- b) By taking correct decision
- c) By controlling Expenses
- d) By purchasing Goods

#### 3. Internal users of accounting information in a business

- (i) Owner
- (ii) Manager
- (iii) Loan providing Bank

Which one is correct?

- a) i & ii
- b) i & iii
- c) ii & iii
- d) i, ii & iii

#### 4. Science & Technology –

- a) Reduce Accounting
- b) Makes Accounting expensive
- c) Restrict the movement of Accounting
- d) Improve Accounting

#### 5. In which name does Accounting apprise?

- a) Accounting systems
- b) Information systems
- c) Auditing systems
- d) Statement systems

6. Expected profit of an organization can be achieved by –

- |                             |                           |
|-----------------------------|---------------------------|
| a) Increasing Assets        | b) Decreasing Liabilities |
| c) Controlling Expenditures | d) Increasing Expenditure |

7. Example of service providing non-profit organization -

- (i) Education institute
- (ii) Advertising institute
- (iii) Social organisation

Which one is correct?

- |             |                |
|-------------|----------------|
| a) i & ii   | b) i & iii     |
| c) ii & iii | d) i, ii & iii |

8. Principal objective of Accounting is -

- i) Determination of financial result
- ii) Control expenditure
- iii) Ascertainment of financial position

Which one is correct?

- |             |                |
|-------------|----------------|
| a) i & ii   | b) i & iii     |
| c) ii & iii | d) i, ii & iii |

## Chapter Two

# Transaction

From the primitive ages, people felt the necessity of keeping accounts. In those days people used to exchange objects among them to meet their daily needs. The event that brings change to the financial position among people is known as transaction. Therefore, it is seen that not all events are transactions. To get the real pen picture of the organization only the financial events are treated as transactions.



**Documents of Transactions**

**After studying the chapter, we will be able to**

- Have an idea about transactions
- Identify the nature of transactions
- Explain accounting equation
- Discuss the impact of transactions over accounting equation
- Prepare and explain the list of documents about the sources of transactions
- Prepare essential documents related to transactions

## Concept of Transaction

In modern society for recording accounts, transaction is very important. Many events occur in business. However, not all these events can be recorded in the book of accounts. Only the events that are measurable in terms of money or something that brought changes financial position are to be treated as transactions. For example, suppose Mr. Simanto bought an almirah for 5000 taka, again got himself injured coming from the shop. Both these incidents are events. Only the first one is related to financial change and should be treated as transaction but the later has no relation to the financial matter and such should not be recorded as transaction.

Literally, the meaning of the word transaction is to 'receive' and 'payment' that means give and take. There are two types of transactions such as: (1) External Transaction and (2) Internal Transaction.

In External Transaction-any financial event affects two parties or two organisations. For Example, Babul stores purchase goods from any supplier or monthly rent paid to land lord by Business.

Without the cash or credit, purchase or sales there can be other exchange of services that lead to transaction. For example, salary paid to Mrs. Mahbuba for her job or received 3,000 taka because of rent. This is also a transaction. Again, invisible events can also be a transaction. For example, for the assets used for a long time, the depreciated amount can also be a case of transaction.

Exchange of money or any event which can be measured by money or service that reflects on the financial condition of a firm will be treated as transaction. Apparently if any exchange of product or service that brings a financial change will be known as transaction.

**Activity:** "Every transaction is an event; every event is not a transaction"-Explain.

## Features / Nature of Transaction:

So far, we have learnt that every transaction is an event but not every event is a transaction. By analyzing the concept of a transaction, we will get the following features of it:

- a) **Measurable in terms of money:** One of the important features of a transaction is that it has to be measurable in terms of money or else it could not be treated as a transaction. For example, the death of the manager of a firm is a loss to the firm but is not measurable in terms of money. However, goods destroyed by fire worth 20,000 taka is a loss to the firm and will be treated as a transaction.
- b) **Changes of financial condition:** If any event brings any financial changes to a firm, it will be treated as a transaction. For example: Somebody bought furniture with cash 5000 taka. Here the furniture of the business has been increased by 5000 taka at the same time cash 5000 taka has also been decreased. Since this event has brought about a change in the financial position of the business, it will be treated as a transaction. Again, if an order of buying furniture worth 5000 taka is placed; it will not be treated as a transaction as it has not brought any financial changes in the business, yet.
- c) **Dual entity:** Every transaction must include two parties. That is one party will receive benefits while the other will ensure the same. For example, salaries paid to the workers taka 5000. Here one party is the 'salary expense account' while the other one is 'cash account'.
- d) **Complete and independent:** Another important feature of transaction is that each transaction is completely separate and independent from the other. For example Tk 10,000 is received from a customer after 7 days of selling goods on credit. Here goods sold on credit is a transaction while 7 days later the payment received is a separate transaction.
- e) **Visibility:** Transactions can be both visible and invisible. For example, some furniture is purchased worth 10,000 taka. It is a visible transaction. Again, the depreciation of furniture worth 1000 taka is an invisible transaction.
- f) **Historical event:** The financial matters that have taken place previously are known as historical transactions. If any future events change the financial position of the business, it will also be treated as a transaction. For example, reserve for bad debts, reserve for discount etc.
- g) **Impact over accounting equation:** The Accounting equation is affected by each transaction. Transaction causes change to different elements of accounting equation. "Asset= Liabilities + Owner's Equity" is the accounting equation. Therefore, any event is justified through accounting equation whether it is a transaction or not.



### Identifying transaction:

Which events are transactions and which are not is explained by the following examples:

Following transactions have been occurring in Sohel Enterprises during January 2017:

1. Started business with tk. 50,000.
2. Purchased goods with cash tk. 15,000.
3. Paid to creditors tk. 10,000.
4. An order placed for purchasing goods worth tk. 8,000.
5. Paid advertisement expense tk. 2,000.
6. Mr. Mamun has been appointed as manager in business for a monthly salary tk. 7,000.
7. Withdrawn from business for personal use tk. 3,000 by the owner.
8. Tk. 500 has been stolen from owner's personal fund.
9. A contract signed to purchase goods from Hashem Brothers' worth tk. 10,000 per month.
10. Sold goods to Hanif Traders on account tk. 10,000.

Whether these events are transaction or not is explained with reason-

### Solution:

No.	Whether Transaction or Not	Explanation with reason
1.	Transaction	Since cash brought in as capital it has brought a financial change and includes two parties involved in it- one the capital of the owner and the other is the cash.
2.	Transaction	Value of product is measurable in terms of money. Purchase of goods is an expense to the business, while the payment has decreased the cash amount.
3.	Transaction	Payment to the creditor has decreased both the liability as well as the cash of the business, so financial condition has been affected.
4.	Not a Transaction	Placing order for the purchase of goods does not mean actual purchase. The buying and selling of the goods have not been taken place, so it is not a transaction.
5.	Transaction	The business has taken a benefit by placing advertisement and the value paid for it has brought a financial change.
6.	Not a Transaction	Giving appointment letter to any person has not brought any financial change to the business and does not include any cash flow either.
7.	Transaction	The owner has taken a benefit by withdrawing amount from the business, so the cash of the business has been affected.

8.	Not a Transaction	Loss of personal savings is not related to the business; the loss belongs to the owner alone. So the cash of the business is not affected.
9.	Not a Transaction	Has been agreed to purchase but actual purchase has not taken place and the payment of which is neither made. So no financial changes occur in the business.
10.	Transaction	By selling goods on credit to Hacı, the business has given him a benefit, which is an income to the business. It has brought a financial change.

### Accounting Equation:

In a particular time, the total asset of an organization should be equal to the sum of owner's equity and external liabilities. The equation that represents this fundamental concept is known as the accounting equation. Accounting scholars have only identified those as transaction that affect the elements of accounting equation (Asset=Liability + Equity). Therefore, the events that make changes in assets, liabilities, and equity are considered as transaction.

Accounting Equation mentioned below:

$$\begin{array}{c}
 \text{A} \\
 \text{(Assets)}
 \end{array}
 =
 \begin{array}{c}
 \text{L} \\
 \text{(Liabilities)}
 \end{array}
 +
 \begin{array}{c}
 \text{E} \\
 \text{(Equity)}
 \end{array}$$

$A=L+E$  | Here, A= Assets  
 L= Liabilities  
 E= Equity

**Asset:** Asset means the economic resources that belong to a business that is invested for making profit. For example, furniture, buildings, machineries of a business.

**Liability:** Liability means the financial rigidity that has to be paid up after a certain period of time. That is, it is the claim of the third party over the total assets of the business.

**Equity:** If the claim of the third party is deducted from the total assets of the business, the rest will be known as equity. That is the claim of the owner over the entire assets of the business is known as equity. Four elements affect equity. These are:

- ✦ Investment of owner
- ✦ Revenues
- ✦ Drawings
- ✦ Expenses

Shown by the picture -



Extending Accounting Equation, we get -

Assets = Liabilities + Capital + Revenues - Expenses - Drawings

Means,

$$A = L + (C + R - Ex - D)$$

Where,

A=Assets

L=Liabilities

C=Capital

R=Revenues

Ex=Expenses

D=Drawings

If an event is to be a transaction, it has to make any one of the following changes:

1. If total asset increases, total liabilities or owner's equity will also increase.
2. If total asset decreases, total liabilities or owner's equity will also decrease.
3. If one asset increases, the other asset will decrease.
4. If owner's equity increases, total liabilities will decrease.
5. If owner's equity decreases, total liabilities will increase.

The impact of transactions over accounting equation is shown in the chart:

## 1. (a) Started business with tk 5,000

A (Assets)			=	L (Liabilities)	E (Equity)
Cash	Machinery	Furniture		Creditors	Capital+Revenues-Expenses-Drawings
5,000			=		5,000

Both Assets (cash) and Equity (capital) increased.

## 1. (b) Purchase machinery on credit tk 5,000

A (Assets)			=	L (Liabilities)	E (Equity)
Cash	Machinery	Furniture		Creditors	Capital+Revenues-Expenses-Drawings
	5,000		=	5,000	

Both Assets (machine) and Liabilities (creditors) increased.

## 2. (a) Paid to creditors tk 3,000

A (Assets)			=	L (Liabilities)	E (Equity)
Cash	Machinery	Furniture		Creditors	Capital+Revenues-Expenses-Drawings
(3,000)			=	(3,000)	

Both Assets (cash) and Liabilities (creditors) decreased.

## 2. (b) Salaries paid in cash tk 2,000

A (Assets)			=	L (Liabilities)	E (Equity)
Cash	Machinery	Furniture		Creditors	Capital+Revenues-Expenses-Drawings
(2,000)			=		(2,000)

Both Assets (cash) and Equity (expense) decreased.

## 3. Furniture purchased in cash tk 1,000

A (Assets)			=	L (Liabilities)	E (Equity)
Cash	Machinery	Furniture		Creditors	Capital+Revenues-Expenses-Drawings
(1,000)		1,000	=		

Assets (cash) decreased and another Asset (furniture) increased

4. Business loan tk.5,000 paid off by the owner personally

A (Assets)			=	L (Liabilities)	E (Equity)
Cash	Machinery	Furniture		Loan	Capital-Revenues-Expenses-Drawings
			=	(5,000)	5,000

Liabilities (loan) decreased and Equity (capital) increased.

5. Goods purchase on credit tk.7,000

A (Assets)			=	L (Liabilities)	E (Equity)
Cash	Machinery	Furniture		Creditors	Capital-Revenues-Expenses-Drawings
			=	7,000	(7,000)

Liabilities (creditors) increased and Equity (expense) decreased.

**The impact of transactions over accounting equation is shown in the chart:**

'Hasan & Associates' started legal practitioner business on January 1, 2017.

The transactions of the first month were as follows:

- Jan 1 Invested tk.50,000 in business as Capital.
- Jan 2 Paid the rent for the month of January tk.3000
- Jan 7 Office machine purchased on credit worth tk.15,000
- Jan 10 Legal services given to the clients for cash tk.6,000
- Jan 15 Paid salary to the office staff tk.2,000
- Jan 20 Loan taken from the bank tk.20,000.
- Jan 24 Legal services provided to the clients on credit tk.7,000.
- Jan 29 Outstanding amount for machine purchased has been paid tk. 10,000

Following accounts are identified by analysing transactions of 'Hasan & Associates' for the month of January 2017.

1. Cash Account
2. Capital Account
3. Rent Account
4. Office Machinery Account /Service Equipment Account
5. Accounts Payable/ Machine Supplier Account
6. Service Revenue Account
7. Debtors Account / Accounts Receivable
8. Salaries Account
9. Bank Loan Account

### Hasan & Associates

Effects of transactions over Accounting Equation is shown for January 2017:

Date	Assets			Liabilities			Remarks
	Cash	Debtors/ Accounts Receivable	Machinery	Loan	Creditors/ Accounts Payable	Equity	
2017 Jan. 1	50,000			=		50,000	Capital Invested
	Balance	50,000		=		50,000	
Jan. 2	(1,000)			=		(1,000)	Expense
	Balance	47,000		=		47,000	
Jan : 7			15,000	=	15,000		
	Balance	47,000	15,000	=	15,000	47,000	
Jan: 10	6,000			=		6,000	Revenue
	Balance	53,000	15,000	=	15,000	53,000	
Jan. 15	(2,000)			=		(2,000)	Expense
	Balance	51,000	15,000	=	15,000	51,000	
Jan. 20	20,000			=	20,000		
	Balance	71,000	15,000	=	35,000	51,000	
Jan. 24		7,000		=	7,000		Revenue
	Balance	71,000	15,000	=	35,000	58,000	
Jan. 29	(9,000)			=	(9,000)		
	Balance	61,000	15,000	=	26,000	58,000	
	Total	82,000	15,000	=	82,000		

**Activity:** Show the effects of the following transactions in Accounting Equation.

Nargis Akter has started a tailoring business named 'Nargis Tailors' on March 1, 2017. Transactions of the first month are mentioned below:

- March 1 Invested tk.20,000 in Business as capital.
- " 3 Shop rent tk.3000 paid for the month of March.
- " 9 Bought sewing machine by cash tk.15,000.
- " 14 Stitching wages realized tk. 2,000.
- " 17 Amount spent for publicity of the shop tk.1,000.
- " 22 Receivable from customer for stitching wages tk.1,500.
- " 25 Repair of sewing machine tk. 300.
- " 30 Bill of 22<sup>nd</sup> march realized tk.1,200.

### Sources of business transactions and related documents:

In support of each transaction, one or many documentary evidence is seen. These carry the evidence of transactions. For example, any businessperson can make several transactions on a single day. Goods sold, goods purchased, return of purchased goods, return of sold goods, depositing money or withdrawing the same in a bank are such transactions may occur regularly in a business. In addition, these events are actually the main source of transactions. Transactions made throughout the calendar year are impossible to be memorized. Therefore, the transactions are to be properly recorded in the books of accounts. Whenever an accountant tends to record these transactions, these documents are prepared. These documents are the vouchers, cash memos, bills, debit notes, credit notes, VAT invoice etc. The explanation, specimen copy, and use of these documents are described here.

**1. Invoice:** Invoice is a documentary proof of goods purchase & sales. When a sells representative sales goods, he delivers a written document mentioning the full details of the goods in it. This written document is called invoice. Buyer's name & address, quantity of goods, description of goods, value of goods and terms of payment etc are mentioned in the invoice. Seller Consider it as an outward Invoice and buyer as inward invoice. On behalf of this invoice, a buyer prepares Purchase Journal and an seller prepares Sales Journal.

Invoice No- 05728		<b>Sumon Traders</b> 53, New Market, Dhaka		Date: 10 March 2017
Buyer's Name: M/S Jaded Traders Address: Board Bazar, Chapirpur		<b>Invoice</b>		
S/No.	Description of Goods	Rate (Taka)	Qty.	Amount (Taka)
1	Master Shell Rice Less: Trade Discount (3%)	40	1,000 KG	40,000 (2,000)
				38,000
Total (in Words): Thirty Eight Thousand Taka				
Sales Terms: 2/10, Net 30				
N.B. Errors & Omissions Excepted				Seller's Signature

**Note:** The amount which is reduced from the purchase price is known as trade discount.

**2. Voucher:** The documentary evidence, which is used for transactions, is known as a voucher. For example, the seller gives a voucher to its buyer for goods sold tk.5,000. Again, a property owner gives a voucher to its tenants after receiving rent tk. 2,000.

Voucher is of two types. They are:

- Debit Voucher
- Credit Voucher

**a) Debit Voucher:** Debit voucher is used for goods purchase and different types of expenses. It is recorded in the credit or payments side of the cash book or cash register attaching an invoice, a cash memo with a consecutive serial number.

### Sample of Debit Voucher

<b>All &amp; Haider</b>		
Andor Killa, Chittagong		
Debit Voucher No. _____	Date _____	Receiver's Name _____
Head of Account _____	Address _____	
No.	Description of Expense	Amount (Tk.)
Total (In Words):		
Cashier's Sign.	Accountant's Sign.	Manager's Sign.
Receiver's Sign.		

**b) Credit Voucher:** The voucher, which is used for sale of goods and income received, is called a credit voucher. After attaching Invoice, cash memo etc. with the credit voucher, it is recorded with a consecutive serial number on the debit side (Receipts side) of the cash book.

### Sample of Credit Voucher

<b>Zahir &amp; Brothers</b>		
Fultola, Khulna		
Credit Voucher No. _____	Date _____	Receiver's Name _____
Head of Account _____	Address _____	
No.	Description of Income	Amount (Tk.)
Total (In Words):		
Cashier's Sign.	Accountant's Sign.	Manager's Sign.
Receiver's Sign.		



**3. Cash Memo:** A cash memo is given at the time of cash sale. The seller usually gives a cash memo to its buyer. The name and the address of the shop are generally printed on top of the cash memo. Mentioning the name of sold goods, quantity, rate, total value, net value, commission etc a seller hands over the cash memo to a buyer with his signature. The cash memo is generally prepared in triplicate.

#### Sample of Cash Memo

<b>Alam General Stores</b> 33, New Market, Dhaka				
Voucher No 56		Date: 1 January 2017		
<div style="border: 1px solid black; display: inline-block; padding: 2px 10px;">Cash Memo</div>				
Buyer's Name: Shemanto & Bros. Address: Chaudhna, Gazipur.				
Sl. No.	Description	Rate	Qty.	Amount (Tk.)
1	Gel Pen	5.00	1000 pcs.	5,000
	Less: Trade discount (3%)			(150)
				4,850
Take(In Words): Four thousand seven fifty taka only.				
Buyer's Signature N.B.: Solid goods can't be returned			Seller's Signature	

**4. Debit Note:** When bought goods are returned to the seller due to inferior quality or not being according to the letter of order, a note is prepared by the buyer describing details i.e. quantity, rate and value and the causes of return of the goods. The note is then sent to the seller along with the goods and the supplier is informed of this note that his account has been debited with that amount due to those returned goods. This note is called Debit Note. The buyer usually prepares a Debit Note.

#### Sample of Debit note

<b>Imran Brothers</b> Multola, Bangladesh		
Debit Note No.-173		Date: 18 August 2017
<div style="border: 1px solid black; display: inline-block; padding: 2px 10px;">Debit note</div>		
Name: M/S. Shopna Enterprise Address: 37, Rastkhola, Mirpur-6, Dhaka. Ref: Purchase / Invoice No. 1265 / 3 August 2017		
Sl. No	Description & Reasons of returning goods	Amount (Taka)
1	10 pcs torn Jamdani Saree to 1,000 each returned. Please deduct the price of 10 sarees from our account	13,000
	Less: Trade discount	(1,000)
		12,000
Take(In Words): Twelve thousand taka.		
		Purchase Manager

**5. Credit Note:** When the seller receives returned goods from the purchaser, he sends a document to the purchaser stating the description of goods, its quantity, its value etc and thereby informs the purchaser that his account has been credited with the value of returned goods. This document is called Credit Note.

### Sample of Credit note

<b>M/S. Shopna Enterprise</b> 37, Ramkhola, Mirpur-6, Dhaka.			Date: 20 August 2017
Credit note no.-237			<div style="border: 1px solid black; display: inline-block; padding: 2px 10px;">Credit Note</div>
Name of Receiver: Innes Brothers Address: Malitola, Bangshal Ref: Debit note 173 / 18 August 2017			
Sl. No	Description & Reason of returning goods	Amount (Taka)	
1	10 pcs torn Jamdani Saree tk.1,300 each returned. Your account is credited with returned goods price. Less: Trade discount	13,000 (1,000) <u>12,000</u>	
Total (in Words): Twelve thousand taka			
Sales Manager			

**Activity:** Prepare a debit voucher for goods purchase valued tk.25,000 using any name & address.

## Exercise

### Multiple Choice Questions:

Traders

1. Which one is not a transaction for the business?
  - a) Goods bought from Jamal Traders on credit tk.2,000.
  - b) Goods sold to Palash Stores for tk.6,000.
  - c) Placed an order to buy goods worth tk.2,000 from Tania Enterprise.
  - d) Goods for tk.2,500 returned in from Palash Stores.
2. Events related to transactions are -----
  - i) May be visible
  - ii) May be invisible
  - iii) Never visible

Which one is correct?

  - a) i & ii    b) i & iii    c) ii & iii    d) i, ii & iii

3. Debit Note is used for

- a) Goods bought on credit returned out      b) Goods sold on credit returned in
- c) Goods bought for cash returned out      d) Goods sold for cash returned in

4.  $A = L + E$  in this equation E signifies -

- a) Asset    b) Owner's Equity    c) Liability    d) Profit

**From the following information answer question no 5, 6 and 7**

Monir traders started business with 50,000 taka on January 1, 2017. Goods sold to Dipok amounting 10,000 taka, value of goods worth 3,000 taka was returned in. He personally contribute to a school taka 2,000 as donation.

5. Starting business with 50,000 taka, which element of accounting equation is going to be affected by this?

- a) Asset    b) Liability    c) Asset and liability    d) Asset and Equity

6. Which note will be prepared for tk. 3,000 transaction by Monir traders?

- a) Debit Note    b) Credit Note    c) Notes receivable    d) Notes payable

7. Donating 2,000 taka to the school the business will affect in-

- a) Asset will decrease
- b) Capital will decrease
- c) Goodwill will decrease
- d) Nothing will happen

8. 'Withdrawn for personal use'—for this transaction in the accounting equation-

- i) Assets will decrease    ii) Liabilities will decrease    iii) Equity will decrease
- Which one is correct?

- a) i & ii    b) i & iii    c) ii & iii    d) i, ii & iii

9. Which one is wrong? By transaction—

- i) Owner's Equity increases if total asset decreases
  - ii) Total liability decreases if total asset increases
  - iii) If one asset increases, the other asset will also decrease
- Which one is correct?

- a) i & ii    b) i & iii    c) ii & iii    d) i, ii & iii

10. Which one is correct?

- a)  $A = L - E$     b)  $E = A - L$     c)  $L = A + E$     d)  $A + L = E$

### Creative Questions:

1. 'Rifat Enterprize' is a business organisation. Following transactions took place in that business in December 2017:

Dec. 1	Started business with tk. 5,00,000.
Dec. 3	Opened a bank account depositing tk. 50,000.
Dec. 5	Goods purchased on credit tk. 25,000.
Dec. 7	Goods sold in cash tk. 45,000.
Dec. 10	The owner has taken loan from bank for personal purpose tk. 40,000.
Dec. 15	Order placed for buying furniture tk. 45,000.
Dec. 20	Paid to Creditors tk. 15,000.

- Calculate the total amount of those events, which are not transaction.
  - Identify the transactions from events explaining reason under equation method.
  - Show the effects of the transaction on accounting equation in tabular/statement format.
2. Following transactions took place in 'Choyon Brothers' in January 2017-
- |         |   |
|---------|---|
| Jan. 1  | Capital brought in Business tk. 75,000.                     |
| Jan. 2  | A manager appointed with tk. 18,000.                        |
| Jan. 7  | Sold goods on credit tk. 25,000.                            |
| Jan. 10 | Stationary purchased in cash tk. 2,200.                     |
| Jan. 12 | The owner paid his son's tuition fees tk. 2,000 personally. |
| Jan. 20 | Received tk. 30,000 from Samona Traders.                    |
| Jan. 25 | Paid tk. 1,500 for advertisement.                           |
- Calculate the total amount of those events, which are not transaction.
  - Explain the reason of 'Choyon Brothers' transactions under equation method.
  - Show effect of the transaction of 'Choyon Brothers' on Accounting Equation.

3. Ashfia started her legal practitioner business named 'Legal Aid' on 2<sup>nd</sup> May 2017. The events of the first month were as follows:

May 2	Invested tk. 1,00,000 in her business.
May 4	Paid office rent tk. 18,000.
May 8	Service Equipment purchased on credit worth tk. 40,000.

- May 12      Legal services provided to the clients for cash tk. 30,000  
 May 16      Paid salary to the office staff tk. 10,000.  
 May 25      Loan taken from the bank tk. 1,00,000.  
 May 27      Legal services provided to the clients on credit tk. 60,000.  
 May 30      Paid tk. 30,000 against credit purchase of Service Equipment.

- Calculate the unpaid amount of Service Equipment.
- Calculate the amount of Ashfia's equity at the end of the month.
- Show the effects of May's transactions on accounting equation.

4. Salim Traders sold the following goods to Joys Traders on February 2017:

- Feb 1            115 Kg Sugar tk. 55 per Kg for cash  
 Feb 7            56 Kg Sugar tk. 52 per Kg  
 Feb 15          35 Kg Mustur Dal tk. 110 per Kg

Salim Traders allowed 10% Trade discount on total sales.

- Calculate the total amount of sales of Salim Traders.
- Prepare a Cash memo for the transaction of February 1.
- Prepare an invoice for the transaction of February 15.

5. James Traders have started business on 01 January 2017 with cash tk. 1, 20,000 & Furniture tk. 70,000. Following transactions happened during the month:

- Jan. 01          Opened a Bank Account in 'Prime Bank' by depositing tk. 50,000.  
 Jan. 04          Goods purchased tk. 45,000 from Belal Enterprise, cash paid tk. 20,000 & cheque issued tk. 15,000.  
 Jan. 06          Goods Sold tk. 80,000; cash tk. 30,000 & cheque tk. 25,000 received against the sale.  
 Jan. 09          Remaining tk. 10,000 paid to Belal Enterprise.  
 Jan. 18          Owner withdrew tk. 8000 from Bank for own purpose.  
 Jan. 28          Advertisement Expense paid tk. 8000.

- Calculate the amount of opening capital for James Traders.
- Considering the above transactions prove that,  $A=L+E$ .
- Calculate the amount of Owner's Equity for James Traders.

6. Sakib Al-Hasan opened a Restaurant named 'Sakib Al-Hasan' on 01 January 2017 with cash tk. 15,00,000 & Bank deposit tk. 7,20,000. Mentioned transactions took place during the month:

- January 05    Service provided to clients tk. 75,000.  
January 09    Monthly rent tk. 40,000 paid by cheque.  
January 11    Paid tk. 12,000 for advertisement.  
January 16    Utility bill paid tk. 17,000.  
January 21    Purchase of office supplies tk.17,000 on account.  
January 28    Service provided to clients tk.1,75,000 on account.  
January 30    Cheque received against the service provided on January 28.  
January 31    Amount paid tk. 10,000 against office supplies.

- Calculate the unpaid amount for office supplies.
- Calculate the total amount of expenses for the month January.
- Show the effect of transactions on financial condition of business.

7. Following events occurred during the month January 2017 in the Business of Borua Traders:

- January 01    Cash purchase tk. 60,000.  
January 12    Furniture purchased tk. 26,500 for office.  
January 23    Goods sold on credit tk. 1, 25,000.  
January 25    Office rent paid tk. 15,000.  
January 28    Deposited into Bank tk. 32,000.  
January 30    Goods purchased on credit tk. 28,000.

- Calculate the amount of purchase for the month of January.
- Calculate the amount of cash transactions of Borua Traders during the month.
- Using the transactions of Borua Traders show that ' $A = L + E$ ' through Accounting Equation.

8. Mr. Jahir has started a vehicle repairing business named 'Jahir Workshop' on 01 January 2017. Following transactions have occurred in his business:

January 01	Mr. Jahir invested tk. 5, 00,000 in business.
January 16	Machine purchased tk. 65,000 for using in business.
January 21	Tk. 80,000 realized from repairing vehicle.
January 26	Rent of workshop paid tk. 21,000.
January 28	Salaries paid to employees tk. 25,000.
January 30	Owner's personal vehicle repaired tk. 15,000.

- Calculate the amount of capital of Mr. Jahir.
- Calculate the amount of business expenses during January.
- Show the effect of transactions on Accounting Equation.

## Chapter Three

# Double Entry System

Throughout the world, Double Entry System is established & known as dependable, scientific, and complete system for keeping accounts in the business. In double entry system each transaction that measured or measurable in terms of money is expressed in dual entry. There is no alternative method of Double Entry System to know the actual result and financial condition of business.



At the end of this chapter we will able to

- Explain the dual entry concept
- Discuss the concept & features of double entry system
- Explain the advantages of double entry system
- Identify the two party involved in transaction i.e. Debit and Credit
- Explain the various steps involved in Accounting Cycle
- Identify the appropriate book for transaction
- Calculate the profit of business by taking an idea of Single Entry System





### Concept of Double Entry System:

The famous Mathematician Luca Pacioli described the perfect and proper recording system of financial events in 1494. That system is known as Double Entry System. Double entry system is considered as the only complete, reliable and scientific system. There is a hint of dual entity concept for every transaction in this system. There have been two or more accounts in every transaction. These accounts are written to dual entity concept. One is Debit and the other is Credit. Two parties of transaction i.e. Debit & Credit are recorded in accounts by Double entry system. In this method, the same amount is written for both debit and credit. Therefore, at any time of the year the total amount of debit is always equal to the total amount of credit. The procedure, which is followed to record dual entity of transactions for preparing accounts correctly is called Double Entry System.

The concept has been explained with an example:

Salary paid to office staff tk.5,000.

For recording this transaction under double entry system, we need to identify the two parties involved in it. Two accounts involved in it are:

- a) Salary Account
- b) Cash Account

Since salary is an expense to the business, expense has been increased and so salary 5,000 taka will be debited. Again, cash goes out while salary is paid, so cash or asset will decrease and cash account will be credited.

So, it is seen that the same amount has been debited both for salary and cash account. This is the basic principle of Double Entry System.

### Principles or Characteristics of Double Entry System:

The most reliable, scientific, complete and self-sufficient system of accounting is the Double Entry System. In double entry system each transaction measurable in terms of money or money's worth is recorded in a twofold aspect and one party is debited for taking the benefit while the other will be credited for ensuring the same.

Principles or Characteristics of Double Entry System are as follows:

1. **Dual Entity:** In every transaction, there are at least two accounts. While detecting debit and credit concerned accounts are to be identified first and then their classification of account is settled. Then debit and credit ascertained by double entry system.

2. **Debtor and creditor:** In every transaction, benefit recipient is debtor and benefit giver acts as the creditor.
3. **Making Debit and credit:** The benefit recipient is made debit while the benefit giver is made credit.
4. **Exchanged equal amount:** In every transaction, the amount of debit and credit will be equal.
5. **Comprehensive result:** Since in every transaction the debit and credit are analyzed and recorded in equal amount, it is easy to detect the comprehensive result. The total of debit side should be equal to the total of credit side.

### **Advantages of Double Entry System:**

The double entry system is complete, dependable, scientific, and self-dependent. This accounts system has many benefits. For these advantage of double entry. In large business organizations this method is popular for keeping accounts. These benefits are described below:

1. **Complete account:** Since debit and credit of each transactions are analyzed and recorded in equal amount, the complete account of any transactions can be obtained.
2. **Ascertain profit-loss:** As the revenue income-expenditures are recorded correctly and completely in this method, the net profit or loss is possible to calculate, preparing comprehensive income statement after a particular time.
3. **Verifying arithmetic accuracy:** For each transaction equal amount will be debited & credited. Therefore, the arithmetic accuracy can be tested on a certain date by preparing a trial balance.
4. **Ascertain financial position:** Preparing financial statement on a certain date the financial condition of a firm can be obtained.
5. **Finding fault & forgery and means to prevent the same:** If the accounts are kept under the method, the faults and forgery can easily be detected and thus be prevented.
6. **Cost control:** Under this method, excessive expenses can easily be controlled.
7. **Identifying total debts & credits:** The owner can detect his her total dues and credits any time under this method, and take necessary steps.

8. **Ascertain proper amount of tax:** If the accounts are kept under this method, the various types of tax like income tax, import-export duty, VAT etc become acceptable to concerned authorities.
9. **Easy for applying:** Each transaction is recorded scientifically analyzing Debit and Credit in double entry system. Therefore, every small & big organization can apply this method easily.
10. **Universal acceptance:** Double Entry System being scientific, complete, faultless and dependable has been recognized as a universally accepted system.

#### Procedure of Identifying Debit and Credit:

It is described earlier that in double entry system total debit amount is equal to total credit amount. This concept is the base of Accounting equation. Primary elements of accounting equation are-Assets, Liabilities & Equity.

Therefore, it can be said that, we see following types of accounts in business:

1. Asset    2. Liability    3. Equity    4. Income and    5. Expense

**Method of calculating debit credit for different accounts described below:**

**1. Asset:** Due to transactions, asset may increase or decrease. For example, purchase of furniture increases asset and selling the same decreases asset. Increase of an asset is debit while a decrease of the same is credit.



**2. Liability:** Like asset, liability can also be increased or decreased. For example, taking loan from bank increases liability while paying installment of it decreases. The relation of liability is opposite to asset. Therefore, increase of liability is credit while decrease of the same is debit.



**3. Equity:** For starting the business, the owner brings capital. Here the owner's equity increases. Again, if the owner withdraws cash from the business, the owner's equity decreases. Owner's equity is a kind of liability to the business. Because according to the principle of accounting the owner and the business have separate identity. Therefore, like liability if owner's Equity increases it is credit, but while decreases to is debit.



**4. Revenues or Income:** The only objective of business is to earn profit. Actually, profit is the portion of revenue, which is more than expense. Therefore, we can say that revenue increases owner's equity. Therefore, increase of revenue is credit while the decreases of the same is debit.



**5. Expense:** Expense is opposite to revenue. Since revenue increases owner's equity, so increase of expense is debit and decrease of the same is credit.



**Effects of Double Entry System in Transactions** are described below with examples:

1. Mr. Hasan has started business bringing in tk. 50,000 as capital.
2. Furniture bought for business tk. 5,000
3. Employees salary paid off tk. 6,000
4. Goods Purchased tk. 20,000
5. Tk. 25,000 was deposited into Bank
6. Goods sold tk. 18,000
7. Cheque paid for advertisement tk. 7,000
8. Commission received tk. 3,000.
9. Interest received from bank tk. 1,200.
10. Goods sold on credit tk. 15,000.
11. Cheque paid for rent tk. 6,000
12. Tk. 8,000 has been withdrawn from bank for business.

**Debit and Credit account of above transactions identified with explanation:  
(This is not a reputed table)**

No	Accounts Head		Taka	Effects of Double Entry System
1	Cash Account Capital Account	Debit Credit	30,000 30,000	As the cash (asset) increased in business, Cash A/c debited. Other side bringing cash to business by owner, owner's equity increased. So, Capital A/c credited
2	Furniture Account Cash Account	Debit Credit	5,000 5,000	For buying furniture, furniture named asset increased & cash decreased. Therefore, Furniture A/c debited & Cash A/c credited.
3	Salaries Account Cash Account	Debit Credit	4,000 4,000	For paying salary, expense of the business increased & cash decreased. So, Salary A/c debited & Cash A/c credited
4	Purchase Account Cash Account	Debit Credit	20,000 20,000	For buying goods, expense of the business increased & cash decreased. So, Purchase A/c debited & Cash A/c credited
5	Bank Account Cash Account	Debit Credit	25,000 25,000	For depositing cash into bank deposited amount in bank increased & cash in hand decreased. Therefore, Bank A/c debited & Cash A/c credited.
6	Cash Account Sales Account	Debit Credit	18,000 18,000	For selling goods in cash, both income & cash of the business increased. Therefore, Cash A/c debited & Sales A/c credited.
7	Advertisement A/c Bank Account	Debit Credit	7,000 7,000	For advertisement expense increased & for cheque issue Deposited amount in bank decreased. Therefore, Advertisement A/c debited & Bank A/c credited.
8	Cash Account Commission A/c	Debit Credit	3,000 3,000	For receiving commission income increased & cash increased. Therefore, Cash A/c debited & Commission A/c credited.
9	Bank Account Bank Interest A/c	Debit Credit	1,200 1,200	For interest allowing by bank deposited amount in bank increased & income also increased. So, Bank A/c debited & Bank interest A/c credited
10	Debtors Account Sales Account	Debit Credit	15,000 15,000	For selling goods on credit, business gets the rights to receive money from debtors and income increased. Therefore, Debtors A/c debited & Sales A/c credited.
11	Rent Account Bank Account	Debit Credit	6,000 6,000	For paying rent, expense increased & giving cheque bank deposit decreased. So, Rent A/c debited & Bank A/c Credited.
12	Cash Account Bank Account	Debit Credit	8,000 8,000	Taking our cash from bank, cash in hand increased & bank deposit decreased. Therefore, Cash A/c debited & Bank A/c credited

**Activity:** Calculate the debit & credit of the following transactions identifying accounts in the book of M/S. Joya & Co. –

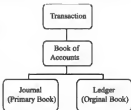
1. Mrs. Joya Mukharjee has made additional investment tk.20,000.
2. Computer purchase for office tk.25,000
3. Office rent paid in advance for three months tk.18,000
4. Sold to Rajon tk.25,000
5. Bank charged tk.1,500
6. Withdrawn from bank tk.6,000
7. Goods purchased on credit tk.15,000
8. Wages paid tk.3,000
9. Purchase return tk.2,000
10. Deposited into bank tk.10,000

### Accounts kept under double entry system:

The main accounts, which are kept under double entry system, are shown below:

**a) Journal:** After transaction occurs then it is identified as debit and credit is ascertained and then it is recorded in a book. This book is known as the primary book of account or Journal. Types of journal are-

1. **Purchase Journal:** Goods purchased on credit are recorded in this journal.
2. **Sales Journal:** Goods sold on credit are recorded in this journal.
3. **Purchase Return Journal:** In purchase return journal goods purchased on credit, returned are recorded in this journal.
4. **Sales Return Journal:** In sales return journal goods sold on credit, returned are recorded in this journal.
5. **Cash Receipt Journal:** Transactions that relates to cash receipt are recorded in this journal.
6. **Cash Payment Journal:** Transactions relate to cash paid are recorded in this journal.



**7. Journal Proper:** Transaction which are not to be recorded in any of the above journals are recorded in journal proper

**b) Ledger:** The book where all the transactions of journal are included by transferring individually to related accounts with appropriate title is called Ledger.

### Accounting Cycle:

According to ongoing concept, it is expected that the business will go on forever. The continuous cycle of keeping accounts is known as Accounting cycle.

#### 1. Identifying Transactions:

Analyzing each event, transactions are identified in the first stage of Accounting cycle.

#### 2. Analyzing Transactions:

In this stage, each transaction is analyzed and accounts are identified. For example- Machineries bought for Taka 5,000. Here two accounts are involved. One Machinery Account and the other cash Account.



Accounting Cycle

**3. Journalizing:** Analyzed accounts record into the primary Book of Accounts as Debit and credit chronologically and the journalizing is done.

**4. Transfer to Ledger:** In this stage, transactions recorded in journal are recorded into the separate heads of accounts. Different ledgers are prepared for each heads of accounts and the balance of which is determined on a certain date.

**5. Preparing Trial Balance:** Trial balance is prepared to testify whether the transactions are recorded accurately to their concerned head of accounts and with the balances of debit and credit of ledger, a trial balance is prepared.

**6. Adjusting Entries:** To identify the actual financial condition of a business the receivable income, accrued expense, expenses paid in advance and

unearned income these items of a particular accounting period are adjusted through adjusting entries.

7. **Prepare Worksheet:** For the objective of preparing the financial statement easier, an optional multi column statement is prepared. It is known as worksheet.
8. **Preparation of Financial Statement:** With the financial statement, the amount of profit-loss, assets, liability, and owner's equity of a business is determined.
9. **Closing Entry:** The balance of the revenue income, revenue expense, and drawings of a business need to be closed at the end of the year. The income and expense of a business remain closed with the remaining asset, liability, and owner's equity the next year starts. Therefore, trial balance after accounting year or opening journal is prepared.
10. **Post Closing Trial Balance or Opening Journal:** Income, Expense & Drawing accounts are being closed by closing entry. Next accounting period starts with the remaining balance of Asset, Liability & Owner's Equity accounts. Post closing trial balance or Opening journal is prepared for this.

### **The Continuity Concept of Accounts:**

According to going concern concept, a business will go on for an indefinite period. At the end of each accounting year, the functions are continued again with same sequence for keeping accounts. Therefore, at the end of current accounting period consecutively next accounting period starts and recording of accounts starts newly. Therefore, it is observed that subject matters related to accounts are continued each year consecutively. This is the continuity of accounts.

It is mentionable that, according to accounting cycle, at the beginning of each accounting period, all assets are being debited and all liabilities are being credited which were shown in the last year's statement of financial position for starting the journey to the new accounting period.

### **Single Entry System:**

Single entry system is suitable for businesses, which are small, and the transactions are limited. In this method in some transactions only one party, double in others while none is recorded in the remaining ones. Actually, single entry system is not at all a scientific system. In this method, though some



accounts related to asset and liability are kept but preservation for the class of income and expense is never emphasized. The following formula /method are applied for determining the profit and loss of the business.

$$\text{Profit/Loss} = \{(\text{Closing Capital} + \text{Drawings}) - (\text{Opening Capital} + \text{Additional Capital})\}$$

$$\text{Opening Capital} = \text{Total opening assets} - \text{Total opening liabilities}$$

$$\text{Closing Capital} = \text{Total closing assets} - \text{Total closing liabilities}$$

The difference is considered as profit when the total amount of closing capital & drawings is bigger than the total amount of opening & additional capital and as loss when it is smaller.

Mrs. Shabeha khatun is a small businessperson. Following information are extracted from her accounts book.

	<u>01/01/2017</u>	<u>31/12/2017</u>
Total Assets	1,20,000	1,50,000
Total Liabilities	35,000	55,000

In 2017 her additional capital tk.20,000 and total drawings tk.30,000

#### Solution:

$$\begin{aligned} \text{Opening Capital} &= \text{Total opening assets} - \text{Total opening liabilities} \\ &= (1,20,000 - 35,000) = 85,000 \\ \text{Closing Capital} &= \text{Total closing assets} - \text{Total closing liabilities} \\ &= (1,50,000 - 55,000) = 95,000 \\ \text{Profit/Loss} &= \{(\text{Closing Capital} + \text{Drawings}) - (\text{Opening Capital} + \text{Additional Capital})\} \\ &= \{(95,000 + 30,000) - (85,000 + 20,000)\} \\ &= (1,25,000 - 1,05,000) \\ &= 20,000 \end{aligned}$$

$$\therefore \text{Amount of Profit} = 20,000 \text{ Taka}$$

**Activity:** Palash kumar pal is a businessperson of grocery shop. His capital was tk.70,000 on 1 January 2017. His amount of drawings tk.15,000 and he didn't bring any additional capital in this year. On 31 December 2017 total assets & total liabilities were tk.1,20,000 & tk.30,000 respectively. Calculate the amount of Profit/loss.



6. Generally, what type of accounts is not kept in Single entry system?

- i) Asset
- ii) liabilities
- iii) Expense

Which one is correct in the following?

- a) i & ii
- b) i & iii
- c) ii & iii
- d) i, ii & iii

7. Which one is correct?

- a) Opening capital = opening total assets - closing total assets
- b) Closing capital = opening total liabilities + closing total liabilities
- c) Opening capital = opening total assets - opening total liabilities
- d) Closing capital = opening total assets + closing total assets

8. Which one is used a rough working for financial statement?

- a) Trial balance
- b) Adjusting entries
- c) Closing entries
- d) Worksbeet

9. Which sequence is correct?

- a) Trial balance, adjusting entries, worksheet, financial statement
- b) Adjusting entries, trial balance, financial statement, worksheet
- c) Worksbeet, trial balance, adjusting entries, financial statement
- d) Trial balance, worksheet, adjusting entries, financial statement

10. If opening capital is tk.70,000 and closing capital is tk.90,000, what is the amount of profit or loss?

- a) Profit tk.20,000
- b) Loss tk.20,000
- c) Loss tk.70,000
- d) Profit tk.90,000

11. Which one is the principle of Double Entry System?

- a) Purchase increases Debit, income decreases Credit
- b) Expense increases Debit, income decreases Credit
- c) Receiver is Debit and Giver is Credit
- d) Receiver is Credit and Giver is Debit

From the following information, answer the questions no. 12, 13, & 14  
On 1 June 2017 Mr. Ishmam started a fast food shop named 'Ishmam Foods' with stock of goods of tk.55,000 at Baily Road in Dhaka. The following transactions occurred in his business in that month:

June 05	Sold goods to Shahed tk.5,000;
June 12	Goods purchased tk.12,000;
June 20	Sold goods on credit tk.35,500;
June 23	Cash received from Rafi tk.5,400;
June 28	Goods returned to seller tk.3,400.

12. Which transactions will be recorded in the journal proper of Mr. Ishmam?
  - a) Sold goods in cash
  - b) Sold goods on credit
  - c) Goods returned to seller
  - d) Started with stock of goods
13. In which book the transactions occurred on June 05 and 20 will be recorded?
  - a) Purchase journal
  - b) Purchase return journal
  - c) Sales journal
  - d) Sales return journal
14. Mr. Ishmam will prepare on returning goods -
  - a) Debit note
  - b) Credit note
  - c) Debit voucher
  - d) Credit voucher

### Creative Questions:

1. 'Kobi & Chobi Traders' kept the all of books under double entry system. On December 2017 The following transactions occurred in his business:

Dec. 1	Cash brought in tk.15,00,000 into the business as capital.
Dec. 12	Clothes purchased on credit tk.25,00,000
Dec. 23	Furniture purchased in cash tk.60,000
Dec. 24	Salary paid to Manager Shakila tk.8,000 (Voucher no. 102)
Dec. 30	Commission received in cash tk.8,500.
Dec. 31	Goods purchase by cheque tk.1,20,000 at 5% discount.

  - a) What is the total amount of goods purchased on December?
  - b) Determine the Debit and Credit of the above transactions.
  - c) Prepare Voucher for the transaction of December 24.
2. Mr. Shahidul Islam in his business 'Riad Enterprise' does not keep the books of accounts properly. On 1 January 2017 Total assets of his business was tk.5,50,000 and Liabilities tk.1,70,000. He newly invested tk.50,000 in the business in this year. In that year, he withdrew tk.40,000 from the business. On 31 December 2017 assets and liabilities of his business were:

Cash tk.1,85,000; Furniture tk.1,80,000; Debtors tk. 1,30,000; Stock of goods tk.90,000; Bank Loan tk.60,000 and Creditors tk. 55,000.

- Determine the amount of opening capital of Riad Enterprise.
- Determine the amount of closing capital of Riad Enterprise.
- Determine the amount of profit or loss of Riad Enterprise in 2017.

- On 1 March 2017 **Abdur Rahman Enterprise** started a business with Cash tk.2,40,000; Machinery values of tk.56,000 and goods worth tk.21,000. Other transactions of the month:

March 03	Goods purchased from Kashem Traders tk.34,000
March 06	Sold biscuits to Jahid stores tk.15,000
March 07	Shop rent paid tk.16,500.
March 10	Sold goods in cash tk.75,000.
March 17	Goods purchased in cash tk.35,000.
March 19	Sold cake tk.60,000.
March 21	Flour purchased from Janata Traders tk.17,500.
March 28	Owner withdraw from the business tk.4,500 for own use

- Calculate the amount of Total Sales.
  - Show the effect on accounting equation of the transactions that occurred on 1, 3, 7, & 10.
  - Determine the debit and credit form the transactions that occurred on 6, 17, 19, & 28.
- On 1 January, 2017 '**Alam Service Center**' started a computer training centre with Cash tk.5,00,000; Furniture worth tk.75,000 and Bank Loan tk.55,000. The following transactions are available in that month:

January 02	Office rent tk. 22,000.
January 10	Paper purchased tk.5,000.
January 12	Computer repaired tk.32,000.
January 20	Wages paid tk. 8,500.
January 25	Training allowance received by cheque tk.13,000. (Voucher no.503)

- Calculate the amount of opening capital.
- Identify Debit- Credit of above transactions with reason.
- Prepare a Credit voucher for the transaction January 25.

5. Mr. Khalek Shekh has started a business named 'Piu Traders' on 1 July 2017 with cash tk.1,20,000 & Goods worth tk.75,000 other transactions of this month was as follows:

- July    4    Furniture bought in cash tk. 66,000.  
      "    8    Order received to sale goods on credit tk. 85,000.  
      "    12    Goods purchase in cash tk. 30,000.  
      "    15    An employee got appointed with salary of tk.15,000.  
      "    20    Cash tk. 8,000 paid for buying necessary stationary for Business.  
      "    25    Sold by cheque tk.80,000.  
      "    30    Withdrawn by owner tk.5,750.

- Calculate the total amount of those event which are not transaction.
- Calculate Debit-Credit with reason of the transaction for the month of July of Piu Traders.
- Calculate the amount of Equity at the end of July for Piu Traders.

6. Miss. Rokeya is the owner of 'Panama Sons', following events occurred on January 2017:

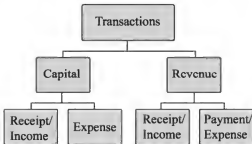
- January    1    Goods Sold for Cash tk.5,50,000.  
      "    10    An order received from a buyer tk.1,20,000.  
      "    18    Goods bought for cash tk.80,000.  
      "    22    A bill prepared tk.10,000 to deliver goods as per order.  
      "    25    Owner brought in additional capital in business tk.90,000.  
      "    30    Cash tk.1,10,000 received from past dues.

- Calculate the total amount of those events, which are not transaction.
- Those events are transaction, write down the reason under modern method.
- Calculate Debit & Credit with reason for the transaction of 'Panama Sons' under equation method.

## Chapter Four

# Capital and Revenue Transactions

Everybody expects that a business will continue for an indefinite period. The features of all the transactions of a concern are analyzed to ascertain the result of all of its business operations and financial position of a particular period. Some transactions are such those benefits are achieved for a longer period. Thinking about the concept transactions are divided into two types as Capital and Revenue. The actual profit and loss and the condition of the financial matter depend largely on dividing the transactions properly. So the object of accounting is achieved through identifying the two types properly.



**At the end of this chapter, we will be able to**

- Detect the differences between Capital and Revenue transaction
- Identifying the necessity of the difference between capital and revenue transactions
- Apply Capital and Revenue expenditure while preparing financial statement and calculating profit and loss

### Concept of Capital and Revenue Transactions

All the transactions are divided into two types, Capital and Revenue. Capital transactions give more benefits than Revenue transactions over the period. Revenue transactions take place regularly while Capital is rare or irregular. There are other aspect/features to differentiate these two types of transactions from each other.

We have seen in transactions until now - Is it cash or accrual, visible or invisible and other things. Transactions can be considered through following aspect -

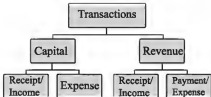


**Activity:** Considering the above situation divide the following transactions into two types-

- Taking loan from the bank worth 10,000 taka
- Goods sold 5,000 taka
- Purchased an Almirah on credit worth 20,000 taka
- Salary paid to the workers 3,000 taka
- Sold old automobile worth 70,000 taka
- Interest received tk. 500 from the deposited amount in bank

The transactions that give long term benefit (More than a year), the amount of which are bigger and not regular in occurrence are known as capital transactions. On the other hand transactions that takes place regularly, the amount of which is comparatively smaller and recurring in nature, are called Revenue transactions.





### Capital Receipts and Income

The receipts which are irregular, amount of which are bigger and the benefits of which are more than a year, are known as Capital Receipts. In business capital, loan taken from bank, selling of fixed asset (land, furniture, machineries etc) are examples of Capital Incomes. However, Capital Receipts and Capital Incomes seem to be synonymous but the difference is identical. Capital Income is a part of Capital Receipt.

Capital Income does not occur regularly and its example is not many. For example, After using an old machinery for several years is sold for 80,000 taka and the current book value of which is fixed at 65,000 taka. Here the capitalistic income is 15,000 taka (80,000-65,000). It is to be noted that capitalistic receipt 80,000 taka is not the actual Capitalistic income. It is noted that if any cost incurred for this sale procedure is deducted for calculating capitalistic income.

**Activity:** Mr. Ratan bought a piece of land for 2,80,000 taka in 2015 and sold the same in 2017 for 4,00,000 taka. Calculate his Capital Receipt and Capital Income.

### Capital Expenditure:

All expenditure of non-recurring nature, the benefits of which are enjoyed by the business for a long time is called Capital Expenditure. Fixed asset (land, furniture, machinery, motorcar etc) purchase, other expenditure related to the purchase of fixed asset (import, freight, carriage, installation expense etc.) is known as Capitalistic Expenditure. It is to be remembered here that the expenses that increase



the life or volume of asset will also be treated as Capital Expense. Example: tk.10,000 is added to an existing old machinery to make it in a workable condition will increase the life of the machinery. It can be said that the expenses, which will ensure further utility over the period, will belong to Capital Income.

### Revenue Receipts and Income:

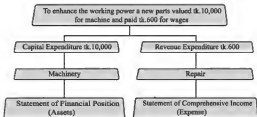
All recurring receipts by way of usual incomes or profit of business, which are used for meeting day-to-day expenses of the business, are called Revenue Receipts. For example sale proceeds of goods, interest on money deposited in bank, rent received, commission received are examples of Revenue Receipts. However, these two sound similar but there are differences between the two. Not all Revenue Receipts at a certain time is supposed to be treated as Revenue Income. For example, rent received tk.50,000 in 2017 but tk.10,000 of which are adjusted for 2018. Here Revenue Receipt is tk.50,000 but Revenue Income is tk.40,000.

**Activity:** Give a tabular presentation of the difference between Capital Receipts and Revenue Receipts.

### Revenue Payments/Expenses:

The recurring expenses of an organization are to run the business and the utility of which is expired within short time is called revenue expense. Purchase of goods, rent paid, salary paid, purchase of stationery, advertisement expense etc. are the examples of Revenue Expense. Revenue Expenses do not acquire wealth rather they contribute for the maintenance of asset. However, Revenue payments and expenses sound similar but there is a minor difference. Revenue Expense is only a part of revenue payments. Often previous accounting period's due and next accounting period's advance are paid along with current year's expenses. The total amount paid together for current, previous, and next accounting period is revenue payments, only the current portion will be considered as revenue expense. If maintenance expense of fixed asset does not affect its lifetime, it will be recorded as revenue expense.

There are some expenses that revenue in nature but benefit obtained from the expense is not for a short term but for a long term of period. Brief idea about the expense is mentioned here:



**Activity:** Give a tabular presentation of the difference between Capital Expenditure and Revenue Expenditure.

### **Necessity for differentiating between Capital and Revenue Transactions**

A businessperson needs to assess his economic and financial condition after a certain period (generally in year). For this, at least three statements need to be prepared - Statement of Comprehensive Income, Statement of Changes in Equity, and Statement of Financial Position. From the Comprehensive Income Statement we come to know the amount of profit and loss, from the Changes in Equity Statement the amount of owner's interest to the business and from the Statement of Financial Position we will be able to know about the asset and liability of a business.

### **The impact of Capital and Revenue Transactions**

Profit and loss of a business is ascertained preparing Comprehensive Income Statement only based on Capital and Revenue Income and Expenses. On the other hand, preparation of Statement of Financial Position based on Capital Receipts and Capital Expenses asset, liability, and Owner's Equity are ascertained. If these two types of transactions exchanges position in financial statement, the actual profit/loss and asset, liability and owner's equity can never be identified.

**Activity:** What trouble would face, if Capital Expense consider as Revenue Expense?

## Deferred Revenue Expenditures

Expenditure of revenue nature the benefit of which extends beyond the accounting period in which it is incurred, is generally written off over a number of years during which it is expected to benefit the business. The unwritten portion of such an expenditure, which is carried forward to the subsequent years, is called Deferred Revenue Expenditure. Expense of prior research for making a new product, expenditure of a big amount for a special type of research, big expenditure on an advertisement campaign, transfer cost of a business are some of the examples of deferred revenue expenditures.

### List of Capital and Revenue Accounts

Capital & Revenue Transactions	Classification	Effects & Reason
1. Capital	Capital Receipts	Will be used in business for several years & have to return to owner.
2. Sale of Land, Building and old Machinery	Do	Irregular receipts
3. Loan Taken	Do	Will be used in business for several years and have to return.
4. Sale of goods	Revenue Income	Regular

Capital & Revenue Transactions	Classification	Effects & Reason
5. Interest on Investment	Revenue Income	Do
6. Rent received of building	Do	Do
7. Dividend from Invest to Share	Do	Do
8. Commission received	Do	Do
9. Purchase of Land	Capital Expenditure	Irregular & long term benefit
10. Registration Exp. Of Land	Do	Added with cost of Land
11. Building	Do	Irregular & long term benefit
12. Machinery	Do	Do
13. Research cost for new product	Deferred revenue exp.	Benefit continues several years.
14. Transportation cost of Machine	Do	Do
15. Large amount spent for machine repair	Do	Irregular & Enhance the useful life
16. Purchase of Furniture	Capital Expenditure	Irregular & long term benefit
17. Goods purchase	Revenue Expense	Recurring
18. Salaries & wages	Do	Do
19. Interest on Loan paid	Do	Do
20. House rent paid	Do	Do
21. Telephone & Electric Bill	Do	Do
22. Advertising Expense	Do	Do
23. Insurance premium paid	Do	Do
24. Regular repairing of Machine	Do	Do
25. Depreciation on Building, Machine & Furniture	Do	Do

**Activity:** Make an example list of other Capital & Revenue Expenditures.

**Illustration:**

Following information are extracted from the accounts book of Bengal Engineering firm on 31 March 2017:

1. Rent tk.750
2. Electric expense tk.7,700 (tk.6,000 for new wire)
3. Transportation in cost tk.6,500 (tk.5,000 for new cement mixing machine)
4. Drilling machine purchased tk.4100.

Requirements:

What is the amount of capital & revenue expenditure?

**Solution:****Capital Expenditure:**

New electric wire cost	tk.6,000
New mixing machine transport cost	tk.5,000
Drilling machine	<u>tk.4,100</u>
	<b>tk.15,100</b>

**Revenue Expenditure:**

Rent	tk.750
Electric expense	tk.1,700
Transport cost	<u>tk.1,500</u>
	<b>tk.3,950</b>

**Exercise****Multiple-choice Questions**

1. Which one is the Capital Expenditure?
  - a) Capital invested by the owner
  - b) Selling expense for machine
  - c) Machine purchased
  - d) Daily expenses to operate business
2. If capital expense is recorded as revenue expense then which calculation will be wrong?
  - a) Bank balance
  - b) Debtors
  - c) Creditors
  - d) Net profit
3. Capital expenditure
  - i. Car purchased for sale
  - ii. Machine purchased for business use
  - iii. Road tax and insurance premium of delivery van

Which one is correct of the following?

- a) i & ii
- b) i & iii
- c) ii & iii
- d) i, ii & iii



Considering the following information answer the questions no. 11, 12 & 13:  
On 1 January 2017 Mr. Plabon Voumik purchased a machinery for his business valued tk.40,000 and paid for its installation tk.5,000. He sold this machinery for tk.25,000 in 2017. At this time remaining price of this machinery was tk.24,000 after deducting depreciation.

11. Amount spent tk.45,000 of Plabon Voumik considered as -
  - a. Capital receipt
  - b. Revenue expenditure
  - c. Deferred Revenue expenditure
  - d. Capital expenditure
12. What was the total amount of depreciation charged in 4 years?
  - a) tk.15,000
  - b) tk.16,000
  - c) tk.20,000
  - d) tk.21,000
13. The difference between selling price and present book value of machinery is called.
  - a) Capital income
  - b) Revenue income
  - c) Revenue receipt
  - d) Capital receipt

### Creative Questions:

1. The following transactions are from the business of 'Borhan Enterprise' in 2017:

Description of Transactions	Amount (Taka)
Capital invested in the business	5,00,000
Machinery purchased	1,50,000
Loan taken from Bank	3,00,000
Goods purchased	10,00,000
Employee's salary paid	3,80,000
Electricity and telephone bill paid	12,000
Depreciation on machinery	15,000
Received from investment	14,000
Rent paid (which includes tk.3,000 for 2018)	40,000
Commission received (which included tk.4,000 for 2016)	50,000
Goods sold	20,00,000
Withdrawn by owner for own use	5,000

- a) Calculate the amount of capital receipt.
- b) Calculate the total amount of revenue income & expenditure and revenue receipts & payments.

- c) Find out the amount of Equity of 'Borhan Enterprise' at the end of year?
2. On April 2017 The following business transactions occurred in 'Raski Homes':
- April 01 Business transfer expense tk. 25,000 from Dhanmondi to Motijheel
  - April 02 Stationery purchased tk. 3,000.
  - April 04 New machine purchased tk. 1,60,000.
  - April 05 Carriage expenses for newly purchased machine tk. 7,500.
  - April 07 New machine installation expense tk. 15,000.
  - April 10 Repairing expense of old computer tk. 3,000.
  - April 12 New battery and tire purchased for office car tk. 40,000.
  - April 15 Research expenses for new goods tk. 18,000.
- a) Calculate the amount of deferred revenue expenditure?
  - b) Calculate the amount of capital expenditure & revenue expenditure.
  - c) Calculate the amount of capital receipt and capital income, If the machine bought on April 4 sold for tk. 1,95,000.
3. Mr. Najim operates a Restaurant named 'Castle 3 Star' at Uttara in Dhaka on January 2017. Few transactions of his restaurant is mentioned below :
- Utensils purchased for tk. 80,000.
  - Decoration materials bought for restaurant tk. 20,000.
  - Publicity expense tk. 3,000.
  - Repairing expense of Delivery van tk. 1,000.
  - Bill realized for arranging a birthday party in restaurant tk. 22,000.
  - New compressor purchased for old refrigerator tk. 8,000.
  - Employee's salary paid tk. 9,000.
  - Received from customer tk. 25,000 for providing service.
  - Rent paid tk. 50,000.
  - Almirah bought tk. 25,000.
- a) What is the total amount of revenue income.
  - b) What is the total amount of revenue expenditure.
  - c) What is the total amount of capital expenditure.



4. The following transactions are of 'Raha & Bros.' business on June 2017 :

Capital brought into the business	tk.	2,50,000
Goods purchased	tk.	7,00,000
Discount received	tk.	5,700
Electrical machine purchased	tk.	4,00,000
Interest on investment received (50% for 2016)	tk.	4,000
Profit on sale of furniture	tk.	2,400
Refrigerator bought for business	tk.	75,000
Import duty paid	tk.	5,000
Bank loan taken	tk.	7,50,000
Goods sold	tk.	30,000
Insurance premium	tk.	7,500
Apprenticeship premium (75% for last year)	tk.	40,000
Sale of old computer	tk.	10,000
Interest on loan paid	tk.	5,000

- Calculate the amount of capital expenditure.
- Calculate the total amount of revenue income & expenditure.
- Calculate the total amount of capital receipt and revenue receipt.

5. Two friends Probir & Supriya started a chain shop named 'Agan Departmental Store'. The following transactions are available in their business :

May 04	Goods purchased on credit tk.50,000
May 07	Decoration cost of shop tk.1,00,000
May 10	Carriage expense tk.1,500
May 12	Goods sold tk.18,000
May 15	Discount allowed tk.700
May 16	Goods sold on credit tk.22,000
May 20	A freezer purchased for shop tk.45,000
May 22	Electricity bill paid tk.1,200
May 25	Commission received tk.3,000
May 30	Dividend received tk.2,000

- Determine the total amount of capital transactions from the above information.
- Determine the total amount of revenue expenditures of their shop.
- Determine the total amount of revenue incomes of their shop.

## Chapter Five

### Accounts

Financial transactions change the financial position of the business. Cash received as well as cash payment is done through transaction. For some transaction income or expense may increase and decrease alternatively assets or liabilities may also increase and decrease by transaction. Income, Expense, Asset and Liability are not a particular type, there are different types of many such items in business organization. In a particular table/chart the income, the expense, the asset or the liability that is affected by transaction are recorded as per double entry system and it calculates the gross & net amount of that particular item. Accounts are prepared to know the continuous change and the net amount of each item.

<b><u>'T'-Table</u></b>								
Account's Title								
Debit				Account's code no. ....				Credit
Date	Particulars	J.F.	Taka	Date	Particulars	J.F.	Taka	

<b><u>'Moving Balance'- Table</u></b>							
Account's Title				Account's code no. ...			
Date	Particulars	J.F.	Debit Taka	Credit Taka	Balance		
					Debit	Credit	

**Ending this chapter we will be able to**

- explain the concept and features of accounts.
- keep accounts using different types of table ('T'- table & 'moving balance'- table).
- classify accounts as per Accounting Equation.
- record Debit and Credit in related accounts as per Double Entry System.

### Concept of Accounts:

The main objective of Accounting is to calculate financial result and financial position. It's required to record the transactions in disciplined & proper way to achieve this objective. Because of transactions continuous increase - decrease happen to assets, liabilities, incomes, expenses and to equity. It's needed to record continuous increase - decrease and to know the net amount of each item at an interval of specific time.

### Event:

Mahi Traders in March 2017 sold goods tk. 15,000; sold old furniture for tk. 3,000 and loan taken from bank tk. 5,000. He spent tk. 8,000 for house rent; tk. 6,000 for gas & electric bill; tk. 3,500 for conveyance; and tk. 2,000 for salary of employees.

All cash receipts and all cash payments are mentioned above of Mr. Sbagor for the month march 2017. How much cash balance will leave in hand? To know the balance following way can be applied-

$$\text{Total Receipts} = (15,000 + 3,000 + 5,000) = \text{tk. } 23,000$$

$$\text{Total Payments} = (8,000 + 6,000 + 3,500 + 2,000) = \text{tk. } 19,500$$

$$\text{Balance} = (23,000 - 19,500) = \text{tk. } 3,500$$

Accounting follows a particular table to present the above information -

Cash Account			
Debit			Credit
	Taka		Taka
Sales	15,000	House rent	8,000
Sale of furniture	3,000	Gas & electric bill	6,000
Bank loan	5,000	Conveyance	3,500
		Salaries	2,000
		Balance (Difference)	3,500
	<b>23,000</b>		<b>23,000</b>

This type of table is kept for each type of assets, liabilities, revenues or incomes, expenses & equity of business organization separately and the balance of each one is calculated.

**Activity:** How is the above table of accounts look like and what special things you are observing?

Account is such a table or statement where the changes & position of each financial item are disclosed. Cash Account, Furniture Account, Bank Account, Purchase Account, Sales Account, Salary Account, Rent Account etc.

### Table of Accounts

Two types of accounts table is used in Accounting-

#### 'T'—Table

Account's Title

Debit

Account's code no.....

Credit

Date	Particulars	J.F.	Taka	Date	Particulars	J.F.	Taka

#### 'Moving Balance'— Table

Account's Title

Account's code no...

Date	Particulars	J. F.	Debit Taka	Credit Taka	Balance	
					Debit	Credit

#### Features of 'T'- Table

- ◆ There will be a title of Account
- ◆ The table will be divided into two parts Debit & Credit
- ◆ Four columns both side total eight columns
- ◆ Balance of accounts (Difference between total Debit & total Credit) should be calculated after an interval of specific time period
- ◆ Should have a code number for each account

#### Features of 'Moving Balance'- Table

- ◆ There will be a title of Account
- ◆ Should have a code number for each account
- ◆ One column each for date, description & journal folio (J.F.)
- ◆ Total four columns for amount (Taka)
- ◆ Debit & Credit amount columns situated side by side
- ◆ Balance of accounts is calculated after each posting of transaction

**Activity:** Identify what are the differences between these two tables.

N: B: Balancing of accounts is described thoroughly in 'Ledger' chapter.

### Classification of Accounts

We can classify accounts very easily by analyzing the Accounting Equation (A=L+E)

Assets

=

Liabilities

+

Equity

or

Assets	=	Liabilities	+	Capital brought in by the owner + Revenues – Expenses – Withdrawn by the owner
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By observing the above equation it possible to identify, that Accounts are five types.

1. Assets      2. Liabilities      3. Equity      4. Revenues      5. Expenses

### Relation of Transactions with Accounts

1.	Capital A/c	Equity	Money, goods, assets, and other services provided by the owner to the business record in Capital Account
2.	Drawings A/c	Equity	Money, goods, assets, and other services taken for own use by the owner from the business record in Drawings Account
3.	Cash A/c	Assets	Cash received and cash payments by the transactions record in Cash Account
4.	Bank A/c	Assets	Deposited amount of bank increase & decrease by the transactions record in Bank Account.
5.	Purchase A/c	Expenses	Goods purchase (anything bought for sale) on cash, cheque, card, credit & bill and Goods stolen, destroyed, used & distributed record in Purchase Account.
6.	Sales A/c	Revenues	Goods sale (anything bought for sale) on cash, cheque, card, credit & bill record in Sales account
7.	Furniture	Assets	Chair, Table, Almirah, Show-case, File cabinet and other fixed assets buy & sale record in Furniture Account.
8.	Plant & Machinery	Assets	Different machine purchase, installation, extension and sale record in Plant & Machinery Account
9.	Return outwards A/c	Expenses	Bought goods returned out record in Purchase return / Return outwards Account
10.	Return inwards A/c	Revenues	Sold goods returned in record in Sales return / Return inwards Account
11.	Creditors A/c	Liabilities	Goods purchased on account, goods returned out, paid to creditors, discount received and acceptance of bill record in Creditors Account.
12.	Debtors A/c	Assets	Goods sold on account, goods returned in, received from debtors, discount allowed and acceptance taken of bill record in Debtors Account.
13.	Bills Payable A/c	Liabilities	Purchase through bill, bill acceptance to creditors, bill paid and nonpayment dishonored record in Bills payable Account.
14.	Bills Receivable A/c	Assets	Sale through bill, bill acceptance by debtors, bill realized and dishonored record in Bills Receivable Account.
15.	Stock of goods A/c	Assets & Expenses	At the end of accounting period amount of unsold goods is determined, which is closing stock of goods for that date and opening stock of goods for the 1 <sup>st</sup> day of next accounting period.

16.	Loan A/c	Liabilities	Loan taken and repayments of loan for business from individual or organization record in Loan Account. Name of individual or organization can be added. Like- Rakesh's Loan A/c or Bank Loan A/c. If business provide loan 'Loan paid A/c'- should use.
17.	Investment A/c	Assets	If the idle money of the business invested to Share, savings certificate, prize bond etc. for short or long time and sale of these record in Investment Account.
18.	Salary A/c	Expenses	Salary paid or due to employee record in Salary Account. No account will be opened under the name of employee.
19.	Stationary A/c	Expenses	Purchase of paper, post, pencil, scale, file cover, pin, clip etc. to operate the administrative activities of business record in Stationary Account.
20.	Rent Account A/c	Expenses	Factory, office, showroom & other places rent paid & due record in Rent Account. If business required, separate rent account can be opened for each type. i.e office rent account, factory rent account, sub tenant account etc.
21.	Carriage expense A/c	Expenses	Carriage inward & Carriage outward accounts are opened to record goods bringing in and sending out expense at the time of buying and selling goods respectively.
22.	Interest A/c	Expenses & Revenues	Interest Account is to open for interest receive & payment and receivable & accrued interest. Received or receivable interest on investment, on drawings, on loan paid, on bank deposit and on other hand paid or payable interest on capital, on loan, on bank overdraft accounts are opened.
23.	Advertisement A/c	Expenses	Advertisement Account open for any kind of promotional & publicity expense of the business. Poster, banner, radio, television, free distribution of goods is most of them.
24.	Bad debts A/c	Expenses	Bad debts account is opened due to debtors' death, bankruptcy or for any other reason. It can be mentioned here that provision for bad debts account is opened for doubtful debts.
25.	Discount A/c	Expenses & Revenues	Allowing some rebate for realizing the receivable amount to debtors and receiving some rebate on paying the owed amount to creditors record in Discount Account. Allowing & receiving discount is recorded in two separate accounts respectively discount allowed and discount received account.
26.	Depreciation A/c	Expenses	The value of fixed assets decreases for being used, the reduced part records in Depreciation Account.
27.	Expense due & Receivable Income A/c	Liabilities & Assets	Separate accounts are opened for revenue expense due and revenue income accrued. For example, salaries due account, interest due on loan account, commission receivable account, interest receivable account etc.

28.	Prepaid Expense & Advance Income	Assets & Liabilities	Prepaid expense Advance income accounts are opened to record respectively expenses paid before getting service and income realized before providing service. For example- prepaid insurance premium, prepaid rent account, advance apprenticeship premium account, advance sub-tenants account etc. Advance income is considered as unearned income.
29.	Repair Account	Expenses	Repair of Fixed assets (Furniture, Machinery, Building, Motor vehicle etc.) is generally recorded in Repair account
30.	Office Equipment Account	Assets	Office Equipment Account is opened to record purchase & Sale of computer, AC, photocopier, printer etc & other expenses related with purchase.
31.	Office Supplies Account	Assets	The price of watch, stapler, calculator, paper weight etc is comparatively small but provides services for a long time. Office Supplies Account is affected for these purchases.

N: B: Idea about some important accounts are shown in the above chart.

**Group Work:** Prepare a list of asset, liability, equity, revenue and expense account divided into several groups.

## Debit and Credit

We have observed Debit and Credit these two words in both 'T' and 'Moving Balance' table. Account is not possible to prepare without identifying debit and credit. So, part of this lesson is explained with the principle of identifying debit and credit of different types of accounts.

We have mentioned the left side of the account debit and the right side credit. These two words give direction to accounts. Debit word means left and Credit word means right. That's why left side of the account is Debit and right side is Credit- it's a convention of Accounting.

We have learnt in Double Entry System chapter that each transaction brings two equal opposite changes. One change is Debit and other one is Credit.

At least two accounts are affected by each transaction, one's debit side affect so the other's credit. Same side of two accounts will not be affected by transaction. Means it will not debit & debit or credit & credit.

Both side of the Accounting Equation will be always equal after each transaction and total debit amount of accounts will be equal to total credit amount of accounts. This two theory help in ascertain debit & credit of accounts.

A	=	L	+	E
Assets	=	Liabilities	+	Equity
Total Debit	=	Total Credit		
Assets		Liabilities		Equity
Debit	=	Credit	+	Credit

Owner's equity increases by bringing in capital (cash or any other asset) & earned incomes and on other hand owner's equity decreases by owner's drawings (cash or any other asset) & expenses incurred. Mentionable here, cash or any other assets brought in or taken out by owner should be recorded in accounts separately, so that the total amount of these two can be known easily.

#### Summary to Calculate Debit and Credit

<u>Debit</u>	<u>Credit</u>
* Assets increase	* Assets decrease
* Liabilities decrease	* Liabilities increase
* Equity decrease	* Equity increase
* Revenue decrease	* Revenue increase
* Expense increase	* Expense decrease

**Effect of transactions on accounts is shown with examples-**

#### Started business with cash tk. 50,000

Both cash (assets) and equity increased by the transaction-

Cash account (Assets increase)	Debit tk. 50,000
Capital account (Equity increase)	Credit tk. 50,000

#### Furniture purchased tk. 10,000

Furniture increased & cash decreased by the transaction-

Furniture account (Assets increase)	Debit tk. 10,000
Cash account (Assets decrease)	Credit tk. 10,000

#### Open a bank account by depositing tk. 5,000

Bank account (Assets increase)	Debit tk. 5,000
Cash account (Assets decrease)	Credit tk. 5,000



Goods sold for cash tk.12,000

Cash account (Assets increase)      Debit    tk. 12,000

Sales account (Revenue increase)      Credit    tk. 12,000

Cash withdrawn tk.1,000 by the owner

Drawings account (Equity decrease)      Debit    tk. 1,000

Cash account (Assets decrease)      Credit    tk. 1,000

**Activity:** Using the following table determine Debit & Credit mentioning accounts classification with reason of each transactions:

1. The owner brought in furniture personally tk.5,000
2. Goods purchase from Bimal Traders tk.7,000
3. Goods sold on credit tk.9,000
4. Goods returned to Bimal Traders tk.1,000
5. Sold out goods on credit returned in tk.2,000
6. Prepaid rent tk.3,000
7. Withdrawn from bank for owner tk.2,000
8. Loan has taken from Ramjan tk.6,000
9. Paid to Bimal Traders tk.3,000
10. Received from debtors tk.5,000

Sl. No.	Party / Account	Classification of accounts	Taken	Reason
1	Furniture account Dr.	Assets	5,000	Assets increase
	Cash account Cr.	Equity	5,000	Equity increase

One transaction is presented in the table to understand.

## Exercise

### Multiple Choice Questions

1. Total number of column in 'T' table -

- a) 6                      b) 7                      c) 8                      d) 10

2. The correct equation may be -

- i) Assets = Liabilities + Owner's Equity
- ii) Assets - Owner's Equity = Liabilities
- iii) Assets + Owner's Equity = Liabilities

Which one is correct of the following?

- a) i & ii                      b) i & iii                      c) ii & iii                      d) i, ii & iii

3. The difference between total amount of debit and credit of an account is called –  
a) Profit      b) Loss      c) Liability      d) Balance
4. 'Debtor' - what type of account?  
a) Asset      b) Liability      c) Owner's equity      d) Revenue
5. Same types of account are –  
i) Salary account    ii) Sales account      iii) Advertisement account  
Which one is correct of the following?  
a) i & ii      b) i & iii      c) ii & iii      d) i, ii & iii
6. Concerned account related with transaction is credited, when-  
i) Asset increases    ii) Equity increases    iii) Expense decreases  
Which one is correct of the following?  
a) i & ii      b) i & iii      c) ii & iii      d) i, ii & iii
7. Which one is prepared for knowing continuous change and net amount?  
a) Account      b) Journal      c) Ledger      d) Trial balance
8. If Share, Debenture or Bond bought using the idle money of business, which account will be kept?  
a) Capital      b) Drawings      c) Investment      d) Loan
9. Account balance is calculated in moving balance format –  
a) At the end of the week      b) At the end of the month  
c) After recording of each transaction      d) At the end of the day
10. How many type of account are there as per accounting equation?  
a) 4      b) 5      c) 6      d) 7
11. Which transaction will increase Equity?  
i) Withdrawn from bank for owner tk.2,000    ii) Furniture purchased tk.5,000  
iii) Sold goods on credit tk.8,000      iv) Bought goods for cash tk.2,000  
Which one is correct of the following?  
a) i & ii      b) i & iii      c) ii & iii      d) i, ii & iii

**Considering the following information, answer the questions no. 12 & 13:**

On 31 May 2017 the following accounts balances are available in Noresh Traders:

Furniture account tk.20,000; Cash account tk.30,000; Purchase account tk.10,000; Sales account tk.25,000; Capital account tk.40,000 and Drawings account tk.5,000.

12. What is the total amount of assets of Noresh Traders?

- a) tk.50,000    b) tk.60,000    c) tk.65,000    d) tk.75,000

13. What will be the net amount of Owner's equity?

- a) tk.35,000    b) tk.50,000    c) tk.65,000    d) tk.70,000

**Considering the following information, answer the questions no. 14 & 15:**

On 1 January 2017 Mr. Jahid started a business named 'Jahid Traders' with cash tk. 2,00,000, Prize bond worth tk.20,000 and loan tk. 25,000.

on 31 January salary paid to employees tk 5,000 in cash

14. What is the amount of opening capital of Jahid Traders?

- a) tk.2,45,000    b) tk.2,20,000    c) tk.2,00,000    d) tk.1,80,000

15. Mention transaction of tk 5,000, effect on accounting equation —

- i) *A* element will decrease                  ii) *L* element will increase                  iii) *E* element will decrease

Which one is correct of the following?

- a) i & ii                  b) i & iii                  c) ii & iii                  d) i, ii & iii

### Creative Questions:

1. Following accounts balances are of 'Shahin Enterpize' on 31 December 2017:

Capital.....	tk.2,50,000	Furniture.....	tk.90,000
Mortgage loan.....	tk.1,00,000	Accounts Receivable.....	tk.65,0000
Prepaid-rent.....	tk.20,000	Accounts Payable.....	tk.40,000
Income tax.....	tk.15,000	Interest Receivable.....	tk.5,000
Salaries due.....	tk.12,000	Machine.....	tk.1,20,000
Life insurance Premium.....	tk.5,000	Bank A/C.....	tk.55,000
Bill payable.....	tk.30,000	Cash A/C.....	tk.25,000

Commission Received in Advance tk.4,000, Goodwill tk.15,000, Unearned Sub-Rent tk.2,000, Bank Overdraft tk.8,500, Stationary due tk.3,000.

- a) Determine the total amount of Drawings from the mentioned information.
- b) Identifying assets calculate total amount of assets of Shahin Enterprise.
- c) Calculate total amount of liabilities from mentioned accounts.

2. Mr. Apu started a business named 'Compose & Copy' on 1 January 2017 with cash tk.1,70,000 & 2 photocopy machine worth tk.75,000 each. Other transactions of business occurred during the month were-

- Jan. 3    Open a Bank account depositing tk.50,000.  
 " 4    Tk. 15,000 paid to install a electric meter in shop.  
 " 7    Purchase of paper tk.2,000 for compose & photocopy.  
 " 8    Fan bought on credit tk.3,000  
 " 15    Tk.2,000 Spent for distributing leaflets in town for the publicity of shop.  
 " 24    Cash tk.8,000 received for question photocopy of a school.  
 " 30    Cheque tk.5,000 issued for paying shop rent.

- a) Calculate the amount of opening capital from the above information.
- b) Show the classification of accounts relate to the transaction dated January 1,3,7&15.
- c) Determine Debit & Credit of the transaction dated January 4,8,24 & 30.

3. Few transactions of 'M/S Padma Steel' wholeseller of Rod & Cement during March 2017:

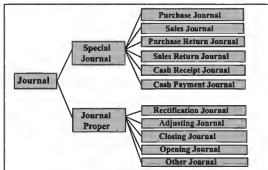
- March 2    1,000 bag cement bought for tk. 4,00,000.  
 " 6    New Scale bought for tk. 40,000.  
 " 9    Cheque received tk. 2,00,000 as earlier dues.  
 " 15    Withdrawn from Bank tk. 1,50,000.  
 " 18    200 bag cement sold for tk. 1,00,000 to Reza traders.  
 " 20    Truck rent tk. 25,000 paid to bring 100 ton rod.  
 " 26    10 bag cement returned from Reza traders.  
 " 28    A Motor Van bought for tk. 2,20,000 for bringing-sending Rod & Cement.

- a) Calculate the amount of Expenses account from the above information.
- b) Determine the Debit & Credits of transaction occurred from March 2 to 15 mentioning.
- c) Determine Debit & Credits with reason of transactions occurred from March 18 to 28

## Chapter Six

# Journal

After the identification of financial and non-financial events, it is necessary to record the financial transactions in the books of accounts identifying Debit and Credit parties. Transactions have differences in nature; the classification of journal is made considering the nature & features of transactions. A transaction should be recorded in such types of journal, where it is appropriate. If the evidence of transaction is justified during recording, the acceptability of recorded accounts increases enormously.



Classification of Journal

**At the end of this chapter, we will be able to**

- identify and importance of journal in case of opening entries.
- classify journal.
- provide general journal Entry.
- prepare purchase and sales journal through invoice, purchase return and sales return journal through debit and credit note.

## Concept of Journal

After the transactions occur, we have to record the detail of that as quickly as possible. The detail of the transaction is recorded first in journal primarily. Analyzing the debit and credit side of a transaction it is written chronologically with explanation in a journal. Later on the journal is acted as the subsidiary book for the principal book Ledger. Therefore, the journal is called the primary book of accounts.

Keeping of journal is not compulsory but for the benefit of keeping records, it is required to be kept. If transactions are kept in a journal, the chance of happening omission of errors reduces significantly.

**Activity:** Tell the features of journal based on the above discussion.

## Importance of Journal

The book of accounts of an institution must be clear and faultless. The financial result and the financial position of business are calculated based on this account. For achieving these principal objectives of accounting, the role of journal is described-

**Recording transactions:** Many transactions take place in an organization. Transferring those immediately to the ledger may not be possible. The transactions if recorded in a journal then transferring those later on in a ledger become easier.

**Knowing the total number and quantity of transactions:** It is not possible from ledger to know how many transactions took place on a certain day, in a week or in a month. Since transactions are recorded chronologically in a journal, on a certain date, week or month the total number of transaction can be ascertained. It's also possible to know the total amount of transactions in different times.

**Application of Dual Entity:** In double entry system transactions are recorded into concerned Debit & Credit accounts together. So, the application of dual entity can be confirmed from journal.

**Explanation of Transaction:** If any question arises from transaction, its explanation can be obtained from journal. Because after recording the transaction into the journal, its reasons and explanation are also provided.

**Reduce error & faults:** If Transactions are recorded in journal before recording to ledger, the faults and being omitted from ledger become less likely to occur.

**Future References:** In journal, transactions are arranged systematically in a chronological manner. In future, it can be used as a proof or evidence.

**Helping aid to principal book:** Since journal act as a subsidiary book to ledger, so preparation of ledger becomes easier, clear and faultless.

### Specimen of General Journal:

Date	Particulars / Account Titles & Explanation	L. F	Debit Taka	Credit Taka
	Total		*****	*****

**Activity:** Drawing the above table ask the students to tell the nature/features of this.

**Date:** In this column, the date when transaction occurs i.e. year, month and day must be mentioned. Journal must be kept continuously according to the occurrence of the transaction chronologically as they take place.

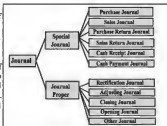
**Particulars:** In this column the debit & credit accounts/ parties related to the transactions are mentioned. Always the debit party at first and then the credit party are recorded. Besides, a brief explanation is also provided.

**Ledger Folio:** Debited and credited accounts related to transaction will be written later permanently in Ledger, the page number of which is mentioned in this Column. So the transaction can easily be identified from the ledger.

**Debit and Credit:** The amount of Debit and Credit is posted in debit and credit column respectively. Each column should be equal in terms of amount. Journal if recorded in separate pages the total of which is to be ascertained of both the columns and thereafter in the next page must be written in respective columns. After recording each journal a line should be drawn at the description column

### Classification of Journal

Among the transactions of business based on nature and characteristics lot of differences are seen. Transactions are to be recorded according to their nature. Classification of play a subsidiary role to keeping ledger accounts and to preparing financial report. So journal are classified under the following manner-



### Special Journal

Almost all the transactions that take place in a business are recorded in a special journal.

1. **Purchase Journal:** All the goods purchased on credit for business are recorded in this journal.
2. **Sales Journal:** All the credit goods sales of a business are recorded in this journal.
3. **Purchase Return Journal:** Goods purchased on credit but returned are recorded in this journal.
4. **Sales Return Journal:** Goods sold on credit but returned are recorded in this journal.
5. **Cash Receipt Journal:** The transactions that include cash receipts (including goods sold for cash) are recorded in cash receipt journal.
6. **Cash Payment Journal:** The transactions that include cash payments (including goods purchased) are recorded in cash payment journal.

### Factors to be considered for General Journal:

According to double entry system each financial transaction includes at least two parties. One party is debit and the other one is credit. We identify both the parties with journal. A transaction should always consist of a debit and credit is not applicable. Based on transactions there can be more than one debits or credits items. But it should be watched specially that the total amount of debit should be equal to the total amount of credit. Here, it is to be remembered that only identifying two parties is not thereby enough, besides the proper title of each heads of accounts is also important. If it is wrongly done, the real financial



picture of the business will never be disclosed. In the accounts chapter the idea related to concerned accounts have been discussed.

(a) No accounts will be opened under the name goods, materials, cheque etc.

Transaction	Journal Entry	
Goods sold	Cash Account	Debit
	Sale Account	Credit
Cheque issued for goods purchase	Purchase Account	Debit
	Bank Account	Credit

(b) If name of the seller & buyer respectively for goods purchase & goods sale are mentioned, it will be considered as credit transaction. But besides name-cash, cheque, bank etc. words attached will not be considered as credit.

Transaction	Journal Entry	
Purchase from Hasan Traders	Purchase Account	Debit
	Creditors(Hasan Traders)/A/c	Credit
Goods sold to Khaled for cash	Cash Account	Debit
	Sales Account	Credit

(c) Goods bought & sold on credit is mentioned but the name of seller & buyer is not mentioned than for purchase Creditors account and for sale Debtors account will be recorded.

Transaction	Journal Entry	
Goods purchase on credit	Purchase Account	Debit
	Creditors Account	Credit
Goods sold on account	Debtors Account	Debit
	Sales Account	Credit

(d) For purchase return and sales return- consider that the purchase & sale had made earlier on credit.

Transaction	Journal Entry	
Returns inward	Sales Returns Account	Debit
	Debtors Account	Credit
Purchased goods returned	Creditors Account	Debit
	Purchase Returns Account	Credit

(e) Buying & selling assets the words new, old, purchase, sale etc. can not be used. Such as Furniture purchase account, Old furniture sales account, New office equipment account etc. named accounts can't be opened.

Transaction	Journal Entry	
Purchase of new Furniture	Furniture Account	Debit
	Cash Account	Credit
Sold of old Machine	Cash Account	Debit
	Machinery Account	Credit

(f) There will be no accounts under the name of individual or institute for income & expenses generally. Though the income is accrued and expense is due.

Transaction	Journal Entry	
Salary paid to employee Jamil	Salary Account	Debit
	Cash Account	Credit
Stationary purchased on credit from Most Stationeries	Stationary Account	Debit
	Stationery Due Account	Credit
Commission receivable from Topa Traders	Commission Receivable A/C	Debit
	Commission Revenue A/C	Credit

(g) Amount of the goods decreases because of goods is used personally or for business, distributed freely for advertisement, stolen, destroyed etc., so for all these situation Purchase account will be credited.

Transaction	Journal Entry	
Goods withdrawn for personal use	Drawings Account	Debit
	Purchase Account	Credit
Goods stolen from shop	Accounts	Debit
	Purchase Account	Credit

(h) Withdrawn from business means owner's drawing. Withdrawn from bank is considered for business. If it is mentioned for owner, will be recorded in - Drawings account.

Transaction	Journal Entry	
Withdrawn from Business	Drawings Account	Debit
	Cash Account	Credit
Withdrawn from Bank	Cash Account	Debit
	Bank Account	Credit

(i) Goods, cash, any asset stolen or destroyed will be recorded in Sundry loss account.

Transaction	Journal Entry	
Money stolen from cash box	Sundry Loss Account	Debit
	Cash Account	Credit
Goods destroyed by fire	Sundry Loss / Loss on fire A/c	Debit
	Purchase Account	Credit

(j) Bank account will be always affected by bank interest allowed or charged and charges of bank.

Transaction	Journal Entry	
Interest allowed by Bank	Bank Account	Debit
	Bank Interest Account	Credit
Bank charged for expenses	Bank Charge Account	Debit
	Bank Account	Credit

(k) If the value of the fixed assets decreases because of using or for any other reason, "Accumulated Depreciation account – respective assets" -named account will be credited in place of being credit the respective assets account.

Transaction	Journal Entry	
Depreciation charged on furniture	Depreciation Account	Dr.
	Accumulated Depreciation (Furniture) A/c	Cr.

(l) Cheque received from any source, Bank account will be debited. Because bearer or open cheque is never handed over to organization, Account Payee cheque is provided.

Transaction	Journal Entry	
Cheque received from Rajib for goods sold	Bank Account	Debit
	Sales Account	Credit
Cheque received from debtors, deposited into bank immediately	Bank Account	Debit
	Debtors Account	Credit

(m) Any service got from owner or Provided to owner Capital account credit and Drawings account debit respectively.

Transaction	Journal Entry	
Salary of the employee paid by the owner personally	Salary Account	Debit
	Capital Account	Credit
Owner's shopping expense paid from Business	Drawings Account	Debit
	Cash Account	Credit

(n) Discount allowed and received at settlement of receivable and payable respectively debtors to creditors account will be affected.

Transaction	Journal Entry		
Tk. 9,000 paid in full settlement of tk. 10,000 to Creditors.	Creditors Account	Debit	10,000
	Discount received A/C	Credit	1,000
	Cash Account	Credit	9,000
Tk.6,500 received from Debtors in full settlement of tk.7,000	Cash Account	Debit	6,500
	Discount allowed Account	Debit	500
	Debtors Account	Credit	7,000

**Activity:** How many parts are there in the General Journal?

**Journal Proper:** Meaning of general journal and journal proper is same. The transactions which are not recorded in Special Journal are include in Journal Proper.

**1. Rectifying Journal:** If any mistake occurs on recording transactions, it cannot be made scabble. The mistake is rectified by giving a journal entry. The entry which is given for the rectification of error is known as rectifying journal. Furniture purchase tk. 10000, wrongly purchase account debited with tk. 10,000.

Date	Particulars / Account Titles & Explanation	L. F.	Debit Taka	Credit Taka
2017 Dec. 31	Furniture Account                      Debit Purchase Account                      Credit (Wrongly purchase account was debited in place of furniture account, now rectified)	- -	10,000	10,000

**2. Adjusting Journal:** Financial statements are prepared to determine the financial position of business. Unrecorded and unadjusted items (accrued and advance expense, unearned and receivable income, depreciation, reserve etc) that are included at preparing the financial statements is known as adjusting entries.

In 2017 rent paid tk. 10,000; before preparing financial statements it disclosed that prepaid rent tk. 2,000 included in rent. Adjusting Journal will be in this regard-

Date	Particulars / Account Titles & Explanation	L. F.	Debit Taka	Credit Taka
2017 Dec. 31	Prepaid Rent Account                      Debit Rent Account                                  Credit (Prepaid rent adjusted with rent account)	- -	2,000	2,000

**Note:** Prepaid expense subtracted from respective expense, since it's an asset. So Expense decreased and Assets increased

**3. Closing Journal:** Revenue incomes and expenses of a particular year will not affect the next year's accounts. So, during the preparation of financial statement revenue income and expenses should be closed. We have learnt in accounts chapter that the balances of income denote credit while the balances of expense denote debit balance. Beside, Drawings account is also closed by closing journal.

Balance of Revenue income & expenditure accounts in 2017 of a business was- Purchase tk. 50,000; Sales tk. 80,000; Salaries tk.10,000; tk. Rent 5,000.

Date	Account Titles & Explanation	L. F.	Debit Taka	Credit Taka
2017 Dec. 31	Sales Account                      Debit		80,000	
	Income Statement              Credit			80,000
	(Sales account balance closed by transferring to Income Statement)			
	Income Statement              Debit		65,000	
	Purchase Account              Credit			50,000
	Salary Account                  Credit			10,000
	Rent Account                    Credit			5,000
	(Balance of Purchase Account, Salary Account and Rent Account closed by transferring to Income Statement)			

**4. Opening Journal:** Business institution is a continuous process. Assets, liabilities and owner's equity of the last year are brought to beginning of the next year, for which opening journal is made.

On 31 December 2016, Cash Account tk.50,000, Furniture Account tk.30,000, Debtors Account tk.20,000, Creditors Account tk.15,000 and Capital Account tk.85,000

Date	Particulars / Account Titles & Explanation	L. F.	Debit Taka	Credit Taka
2017 Jan. 01	Cash Account                      Debit		50,000	
	Furniture Account              Debit		30,000	
	Debtors Account                  Debit		20,000	
	Creditors Account              Credit			15,000
	Capital Account                  Credit			85,000
	(Business begin in 2017 with Assets, Liabilities & Equity of 2016)			

**5. Other Journal:** Besides transactions of special journal & four types of transactions mention in journal proper, there are other transactions also, such as- assets buy-sell on credit, discount allowed & discount received, distribution of goods etc. These transactions also record in journal proper.

## Discount & Classification of Discount

Generally, when goods is possible to buy in lower price than the predetermined price, the price that paid less is Discount. This type of discount is both paid & received in business.



**Trade Discount:** Seller determines the selling price of goods. When seller sells his goods in a lower price than the predetermined selling price, it considered as Trade discount. This discount is sales discount for seller and purchase discount for buyer. Neither buyer nor seller keeps this discount in their accounts.

**Cash Discount:** Buying-Selling in business takes place frequently on credit. The rebate that is provided by seller to buyer to settle the debts between them quickly is Cash discount. This discount is discount paid / allowed for seller & discount received for buyer. Both record this discount in their book of accounts.

**Activity:** Compare Trade discount with Cash discount.

### Example-1

Mr. Nila Chowdhury is the owner of Nila Enterprise. During the month of March 2017, the following transactions took place.

March	1	Purchased goods tk. 9,000.
"	2	Purchased furniture tk.12,000.
"	3	Sold goods to Bahar tk.15,000.
"	7	Deposited in the Bank tk. 8,000.
"	9	Purchased goods on credit tk. 5,000
"	12	Created provision for bad debts tk.2,000.
"	15	Bad debts written off tk. 1,000.
"	18	Purchased stationary tk. 1,000.
"	30	Salaries paid to the employees tk. 7,000.

### General Journal of Nila Enterprise

Date	Account Titles & Explanation	L. F.	Debit Taka	Credit Taka
2017				
March 1	Purchase Account                      Debit Cash Account                      Credit (Goods purchase in cash)		9,000	9,000
" 2	Furniture Account                      Debit Cash Account                      Credit (For furniture purchased for cash )		12,000	12,000
" 3	Debtors(Bahar) Account              Debit Sales Account                      Credit (For goods sold to Bahar )		15,000	15,000
" 7	Bank Account                          Debit Cash Account                      Credit (Cash deposited in the Bank)		8,000	8,000
" 9	Purchase Account                      Debit Creditors Account                  Credit (For goods purchased on credit)		5,000	5,000
" 12	Bad debts Account                      Debit Provision for Bad debts Account      Credit (For created provision for bad debts)		2,000	2,000
" 15	Provision for Bad debts Account      Debit Debtors Account                      Credit (For written off bad debts)		1,000	1,000
" 18	Stationary Account                      Debit Cash Account                      Credit (For Stationary purchased for cash)		1,000	1,000
" 30	Salary Account                          Debit Cash Account                      Credit (For salaries paid in cash)		7,000	7,000
	<b>Total</b>		<b>60,000</b>	<b>60,000</b>





..	12	Prepaid Rent Account	Debit	4,000	
		Cash Account	Credit		4,000
		(Office rent paid in advance)			
..	15	Creditors Account (Babul)	Debit	1,000	
		Purchase return Account	Credit		1,000
		(For goods returned to Babul Traders)			
..	20	Advertisement Account	Debit	3,000	
		Cash Account	Credit		3,000
		(For expense made for advertisement)			
..	23	Creditors Account (Babul)	Debit	5,000	
		Bank Account	Credit		5,000
		(Issued cheque to Babul )			
..	25	Drawings Account	Debit	2,000	
		Cash Account	Credit		2,000
		(Personal expenses paid from the business)			
..	30	Salary Account	Debit	3,500	
		Accrued Salary Account	Credit		3,500
		(Salary of Raihan is unpaid)			
		Total		1,54,000	1,54,000

### Journal of Service Providing Organization

On 1 March 2017 Mr. Pijush Kumar started a theatre business named 'Kumar Theatre' at Baily Road. On 1 March he invested tk. 5,00,000 in business.

Transactions on March of his business were -

March	2	3 months' rent of the theater paid in advance tk. 90,000
..	4	Publicity expense of the theater tk. 15,000
..	6	Purchased chair and table for the theater tk. 30,000
..	7	Cost of making & decorating stage tk. 50,000
..	12	Entertainment expense for artist & technician tk. 2,000
..	15	Sale of tickets for showing drama tk. 80,000
..	18	Honorarium paid to the artist tk. 25,000
..	25	Electricity bill due tk. 3,000
..	28	Salaries paid to the theater employees tk. 12,000

### Solution

#### General Journal of Kumar Theatre

Date	Account Titles & Explanation	L. F.	Debit Taka	Credit Taka
2017 March 1	Cash Account Capital Account (For cash brought in as capital.)	Debit Credit	5,00,000	5,00,000

Date	Account Titles & Explanation	L. F.	Debit Taka	Credit Taka
2017 March 2	Prepaid Rent Account                      Debit Cash Account                                  Credit (For office rent paid in advance )		90,000	90,000
" 4	Advertisement Account                      Debit Cash Account                                  Credit (For advertisement expense paid )		15,000	15,000
" 6	Furniture Account                              Debit Cash Account                                  Credit (For furniture purchased for cash.)		30,000	30,000
" 7	Stage & Decorate expense Account      Debit Cash Account                                  Credit (For making stage & it's decoration paid.)		50,000	50,000
" 12	Entertainment expense Account          Debit Cash Account                                  Credit (For entertaining artist paid.)		2,000	2,000
" 15	Cash Account                                      Debit Service revenue Account                  Credit (For selling ticket of drama.)		80,000	80,000
" 18	Honorarium expense Account              Debit Cash Account                                  Credit (For paying honorarium to artist)		25,000	25,000
" 25	Electricity expense Account                  Debit Electricity expense due A/c                  Credit (For electricity bill unpaid)		3,000	3,000
" 28	Salaries expense Account                      Debit Cash Account                                  Credit (Salaries paid to the theater employees)		12,000	12,000
	Total		8,07,000	8,07,000

**Activity:**

Following transactions took place in M/S Sachin & Co. during April 2017 .

April 1 Cheque received from debtor tk. 8,000.

" 3 Took loan from Maruf tk. 20,000

" 5 Purchase Return tk. 500.

" 8 Sold old furniture tk.2,000.

" 10 Bad debts written off tk. 1,000.

" 12 Notes payable tk.3,000 paid by bank.

- " 15 Purchased chair and table tk.7000
- " 18 Interest on investment tk.1000
- " 20 Commission receivable tk.600
- " 22 Withdrawn from Bank tk.4000
- " 25 Paid creditor by cheque tk. 6500 and received discount tk. 500
- " 30 Charged depreciation of furniture tk.800

Record the above transactions in the General Journal Book.

**Purchase Journal:** Whatever purchased in business with the intention of sale is goods. These goods can be bought through both for cash and credit. Goods those are bought on credit are recorded in Purchase Journal. Purchase journal is prepared based on invoice. A purchase Journal based on Invoice is prepared below-

Invoice No- 1650	<b>Shaudagar Agency</b> 51/3, Badam Toli Shoderghat, Dhaka	Date: 2 March 2017		
Buyer's Name- Raha stores Address: 23/2, Kachai Bagan, Dhaka.		<div style="border: 1px solid black; padding: 5px; display: inline-block;">Invoice</div>		
S/No.	Description Of Goods	Rate (Taka)	Qty.	Amount (Taka)
1	Nargis Shail Rice Less: Trade Discount (5%)	40	1,000 KG	40,000 2,000
				38,000
Taka (Inwords): Thirty Eight Thousand Taka				
Sales Terms: 2/10, Net 30				
N.B. Errors & Omissions Excepted				Seller's Signature

#### Raha Store's Purchase Journal

Date	Account Credited	Condition	Invoice No.	Source	Purchase Account Creditors Account	Debit Credit
2017						
Mar 2	Shaudagar Agency	2/10, net 30	1650	✓	38,000	
" 10	Nargis Agency	3/5, net 20	1230	✓	23,000	
					61,000	

(Name of Nargis agency newly entered)

**Sales Terms:** If the sales term is like this - 2/10, Net 30. It means, if the buyer is able to pay the dues within 10 days gets 2% cash discount. If failed then dues have to be paid within 30 days of course.

**Sales Journal:** Goods sold on account is recorded in Sales Journal. Sales Journal is also prepared based on invoice. Specimen of Sales Journal mentioned below-

**Shaudagar Agency's Sales Journal**

Date	Account Debited	Invoice No.	Source	Debitors Account Sales Account	Debit Credit
2017					
March 2	Raha Stores	1650	✓	18,000	
March 12	Rohana Stores	1651	✓	32,000	
				<u>70,000</u>	

N. B. The part of transferring to Ledger from Purchase & Sales Journal is mentioned in the 'Ledger' chapter

Carriage, Packing and insurance expenses are related to goods purchase and sale. Bearer of the charges should be determined. Buyer have to pay the charges if these are included in the invoice. Total amount of invoice price is recorded both in purchase journal and sales Journal.

**Activity:** Shahjahan Traders is a Wholeseller of Kawran Bazar, Dhaka. During the month of November 2017 following transactions took place in his business-

- Nov. 1 Sold to Mili Stores, Dhaka- 50 Kg. of at tk.100 per Kg. Trade discount allowed 2%. Invoice No.8. Condition : 3/10, net 20
- " 5 Sold to Jony Traders- 500 Pound of Tea at tk.200 per Pound. Trade discount allowed 5%. Invoice No- 533. Condition : 3/15, net 30
- " 8 Sold to Ratan Stores- 100 Pound of Tea at tk. 220 per Pound .Trade discount allowed 3%. Invoice No.- 254.
- " 12 Sold to Zafar Brothers- 120 liters of Soya bean oil at tk. 300 per liter .Trade discount allowed 4%. Invoice No.- 534.
- " 15 Sold to Shikdar and Sons- 100 bags of flour at tk. 2000 per bag. Trade discount allowed 3%. Invoice No.- 255.
- " 20 Sold to Rotna Traders - 50 packet of powder milk at tk. 350 per packet. Trade discount allowed 2%. Invoice No.- 535.

Prepare Purchase Journal and Sales Journal from above information

**Purchase Return Journal:** If the delivered goods are not as per order, below standard or date expired, bought goods are returned to the seller. The buyer sends prepared Debit Note to seller for returning goods and prepares Purchase Journal.

Debit Note No.-173	<b>Imran Brothers</b> Malibola, Bangladesh	Date: 18 August 2017
<div style="border: 1px solid black; display: inline-block; padding: 5px 20px;">Debit note</div>		
Name: M/S. Shopna Enterprise Address: 37, Raminibola, Mirpur-6, Dhaka. Ref: Purchase / Invoice No. 1265 / 3 August 2017		
Sl. No	Description & Reason of returning goods	Amount (Taka)
1	10 pc. Torn Jamdani Saree tk. 1,100 each returned. Please deduct the price of 10 sarees from our account.	13,000
	Less: Trade discount	1,000
		12,000
Taka (Inwords): Twelve thousand taka		
N.B. Errors & Omissions Excepted		Purchase Manager

### Imran Brother's Purchase Return Journal

Date	Account Debited	Debit Note No.	Source	Creditors Account Purchase Return A/c	Debit Credit
2017 Aug. 18	M/s Shopna Enterprise	173	✓	12,000	
- 23	Maman Traders	185	✓	7,000	
- 29	Nahid Stores	193	✓	5,000	
				24,000	

Transaction of date 23 and 29 newly entered.

**Sales Return Journal:** Receiving returned goods along with debit note from buyer, seller confirms buyer preparing credit note that his account is credited. Seller send credit note to buyer and prepares Sales Journal for having the goods returned to him.

Credit note no.-237	<b>M/S. Shopna Enterprise</b> 37, Raminibola, Mirpur-6, Dhaka.	Date: 20 August 2017
Name of Receiver: Imran Brothers Address: Malibola, Bangladesh Ref: Debit note 173 / 18 August 2017		
<div style="border: 1px solid black; display: inline-block; padding: 5px 20px;">Credit Note</div>		
Sl. No	Description & Reason of returning goods	Amount (Taka)
1	10 pc. Torn Jamdani Saree tk. 1,100 each returned. Your account is credited with returned goods price.	13,000
	Less: Trade discount	1,000
		12,000
Taka (Inwords): Twelve thousand taka		
N.B. Errors & Omissions Excepted		Sales Manager

### M/S. Shopna Enterprise's Sales Return Journal

Date	Account Credited	Credit Note No.	Source	Sales Return Account Debitors Account	Dr. Cr.
2017					
Aug. 20	Innan Brothers	237	✓	12,000	
" 25	Sagar Trades	240	✓	9,000	
" 30	Rupa Traders	243	✓	5,500	
				26,500	

Transactions dated 25 and 30 newly entered

**Activity:** The following returns happened on April 2017 in Fatema Stores-

April 3 10 packets powder milk tk.250 each returned from Ratul Traders, as they were date expired. Trade discount 3%, Credit note no.-165

" 9 40 Kg. detergent at tk.50 per kg returned to Jaman & Sons due to inferior quality. Trade discount 2%, Debit note no.-187.

" 17 15 pounds tea at tk.170 per pound returned to Latif Stores, since it was not according to sample. Debit note no.-188.

" 24 6 dozens soap at tk.180 per dozen returned from Rashed & Bros due to excess deliver. Trade discount 4%. Credit note no.-166

Record to Purchase return & Sales return journal.

N. B. Example and procedure to prepare Cash Receipts & Cash Payments Journal described in Chapter 8.

## Exercise

### Multiple-choice Questions

1. Journal is called in Accounts-

- i) Primary book
- ii) Subsidiary book
- iii) Permanent book

Which one is correct of the following?

- a) i & ii    b) i & iii    c) ii & iii    d) i, ii & iii

2. It is known from journal —

- i) Total number of transactions
- ii) Total amount of money
- iii) Reason of transaction

Which one is correct of the following?

- a) i & ii    b) i & iii    c) ii & iii    d) i, ii & iii

3. Which one is recorded in Journal proper ?
  - a) Purchase journal                      b) Sales journal
  - c) Adjusting journal                      d) Cash journal
4. Which one is recorded in Purchase journal?
  - a) All goods purchases                      b) All goods purchase in cash
  - c) Assets purchase only                      d) Goods purchase on credit only
5. Which one is the documentary evidence of Sales return journal?
  - a) Debit note    b) Credit note    c) Debit voucher    d) Credit voucher
6. Which entry is used for closing the incomes and expenses account?
  - a) Opening    b) Transfer    c) Adjusting    d) Closing
7. Which one will be debited for buying Office equipment ?
  - a) Staples    b) Computer    c) Paper weight    d) Almirah
8. Salary due to employee Shakil. Which one is the correct journal entry?
 

a) Shakil account	Debit	b) Salary account	Debit
Salary account	Credit	Shakil account	Credit
c) Salary account	Debit	d) Outstanding Salary A/c	Debit
Outstanding Salary A/c	Credit	Salary account	Credit

**Read the following passage and answer question No. 9, 10, 11 & 12:**

On 1st October 2017 Mrs. Sabina Yasmin started a business with tk.2,00,000 from selling her own land and bank loan tk.1,00,000 in the name of her business named Sabina Enterprise . On 5th October furniture purchased in cash tk.40,000. On 10th October sold goods to Masud for tk.30,000. On 15th October bought goods returned tk.5,000.

9. What is the amount of opening capital of Sabina Enterprise?
  - a) tk.1,00,000                      b) tk.2,00,000
  - c) tk.3,00,000                      d) tk.3,40,000
10. The transaction of 5th October will be recorded in which primary book?
  - a) Purchase journal                      b) Cash payment journal
  - c) Journal proper                      d) General journal
11. Which one is the correct journal of October 10th ?
 

a) Masud account	Debit	tk.30,000	b) Cash account	Debit	tk.30,000
Sales account	Credit	tk.30,000	Sales account	Credit	tk.30,000
c) Cash account	Debit	tk.30,000	d) Masud account	Debit	tk.30,000
Masud account	Credit	tk.30,000	Cash account	Credit	tk.30,000





3. Following transactions occurred in Chowdhury Hardware during January 2017 :

- Jan. 01 Started business with cash tk.2,50,000 and Furniture worth tk.65,000.
- Jan. 05 Sold 250 fit G.I. pipe tk. 192 per fit to Suborna Traders allowing 5% discount. Invoice no.205.Packing charge tk. 500.
- Jan. 08 Goods purchased from Rajon Traders by cheque tk.41,500.
- Jan. 15 Pen & Paper bought for business use tk.200
- Jan. 18 Carriage expense for Almirah which bought for business tk.1,500.
- Jan. 28 Goods withdraw for personal needs tk.800.

- a) What is the amount of opening capital of Chowdhury Hardware?
- b) Prepare an Invoice for the transaction dated January 5.
- c) Record the transactions occurred on January 8, 15, 18 and 28 to General journal.

4. Following transactions occurred in Khan Computer's during July 2017 :

- July 05 8pcs Computers purchased from Mahi Computers at tk.36,000 each. Trade discount @ 6%. Invoice no.509. Carriage expenses tk.1,500.
- July 15 6pcs Computers purchased from Raju Computers at tk.40,000 each. Invoice no.311, trade discount @ 5 %, packing expenses tk.500.
- July 20 3pcs computers returned to Raju Computers due to inferior quality. Debit note no. 501.

- a) What is the total amount of incidental expenses of Khan Computers to purchase in July.
- b) Prepare a Debit note considering the above transactions of July.
- c) Prepare a Purchase journal of Khan Computers from the above transactions.

5. Following assets & liabilities of 'M/S Alfa Traders' on 1 January 2017 were: Cash Account tk.40,000, Furniture tk.1,00,000, Investment tk.50,000, Creditors tk.10,000 & Capital tk.1,80,000 on 31 December 2017 following matters were considered in business:

- 1) Total salaries paid tk.1,20,000, out of which tk.20,000 paid in advance.
- 2) Rent paid tk. 50,000 & outstanding tk.10,000.
- 3) Interest receivable from Investment tk.5,000.
- 4) Charge depreciation on Furniture tk.10,000.

- a) Give opening Journal entry from the above information.
- b) Show necessary adjusting entries at the end of year.
- c) Give closing entry in Journal proper of M/S Alfa Traders.

6. Few transactions of 'Niharika Pharmacy' in July 2017 are as follows:

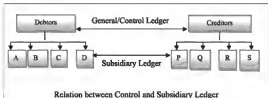
- July 1 Tk. 30,000 paid for new trade licence fees.
- " 5 Purchased 20 carton defective medicine of tk. 500 per carton returned to Shadhona pharmacy Debit note no. 111.
- " 10 01 Computer worth tk.40,000 bought for keeping accounts of business.
- " 15 100 packet expired Vitamin capsule of tk.300 per packet returned from chandana Medicare. Discount 5%. Credit note no. 222.
- " 20 500 bag saline (@tk. 120 not being in accordance with order returned to Priyonti pharma. Trade Discount 5%. Debit note no. 333.
- " 30 Sold goods to Niramoy Drugs worth tk. 25,000 at 10% discount returned for poor quality. Credit note no. 444.

- a) Prepare General Journal for transactions dated July 1 & 10.
- b) Prepare Purchase Return Journal of Niharika Pharmacy.
- c) Prepare Sales Return Journal of Niharika Pharmacy considering above information.

## Chapter Seven

# Ledger

After the recording of transactions primarily it's necessary to transfer these to the concerned heads of account following the classification of accounts. Throughout the year at different times goods are bought and sold both on cash and credit. Without accumulating credit purchase from purchase journal and cash purchase from cash book total purchase can never be obtained. Ledger assembles the scattered purchase, sales and other income and expenses and helps in ascertaining total purchase, total sales and other total income & expenses. Similarly, the results of the transaction related to assets, liabilities and equity of business organisation are transferred to related accounts maintained under ledger. To know about the balances of accounts and to testify their arithmetic accuracy along with having a primary idea about the total condition of the business are included in this chapter.



At the end of this chapter, we will be able to

- explain the idea and importance of ledger as a permanent book
- classify the types of ledger
- detect the differences between Journal & Ledger
- identify the balances by preparing accounts through 'T' and 'Moving balance'-format
- analyze the significance of debit & credit balance of ledgers.

### Concept of ledger

Different types of accounts like assets, liabilities, owner's equity, incomes, expenses and accounts of profit-loss are kept in business organization. These accounts together are called ledger. Generally, in a running business organisation opening debit or credit balance of accounts related with assets, liabilities & equity are remain. Results of transactions occurred in a specific period of time are transferred to related accounts of ledger properly. Balance of each account is calculated at end of accounting period. In this process, amount of income, expense, profits & loss are calculated of a business organisation for that period and amount of assets, liabilities & owners equity can be known on a specific date.

#### Features:

- Each account is given a title
- 'Moving Balance' and 'T' format are followed to prepare ledger
- Balance of each accounts are identified individually
- In preparing ledger journal acts as a helping book. Journal folio no. is mentioned at the time of recording to Ledger.
- Verify the arithmetical accuracy of accounting activity.
- Trial Balance is prepared with the account balance from Ledgers.

Assets	Liabilities	Owner's Equity	Revenues	Expenses
<ul style="list-style-type: none"> <li>• Cash A/c</li> <li>• Furniture A/c</li> <li>• Debtors A/c</li> <li>• Prepaid Expense A/c</li> <li>• Stock of Goods A/c</li> <li>• Land &amp; Building A/c</li> <li>• Machinery A/c</li> <li>• Goodwill A/c</li> </ul>	<ul style="list-style-type: none"> <li>• Creditors A/c</li> <li>• Loan A/c</li> <li>• Expense Due A/c</li> <li>• Unearned Revenue A/c</li> </ul>	<ul style="list-style-type: none"> <li>• Capital A/c</li> <li>• Drawings A/c</li> <li>• General Reserve A/c</li> </ul>	<ul style="list-style-type: none"> <li>• Sales A/c</li> <li>• Rent Received A/c</li> <li>• Commission Received A/c</li> <li>• Discount Received A/c</li> <li>• Apprenticeship Premium A/c</li> </ul>	<ul style="list-style-type: none"> <li>• Purchase A/c</li> <li>• Salaries A/c</li> <li>• Wages A/c</li> <li>• Depreciation A/c</li> <li>• Advertisement A/c</li> <li>• Insurance A/c</li> <li>• Rent A/c</li> <li>• Rates &amp; Tax A/c</li> <li>• Bad Debts A/c</li> </ul>

### Importance of Ledger

Since transactions are properly arranged in a sequence to accounts, users can easily access their desired information from the ledger. It's possible to get idea about the total amount of assets, liabilities, income and expenses of a business from the ledger. For the purpose of preparing trial balance, the balances of ledger are used and as such arithmetical accuracy is confirmed. The necessity and importance of ledger is amplified by saying that 'Ledger is the king of all books of accounts'.

### Difference between Journal and Ledger

Journal and ledger both are two steps of accounting cycle. Ledger by comparison is more important and useful than journal. Keeping journal is optional while compulsory for the case of ledger. Apart from the arithmetical accuracy of accounts the ledger reflects the financial results and condition of a business. There are differences between the tables of a journal and a ledger. In a journal only the debit and credit side of transaction is identified where as in a ledger balance of each accounts are identified by comparing total debits and total credits. For preparing the ledger properly and accurately journal acts as a supplementary book.

**Activity: (Group work)** Show the differences between Journal and Ledger.

### Includes in Ledger or Posting

Transaction: Jan. 1, 2017 Goods purchase for cash tk. 5,000

#### Journal Entry:

Purchase Account	Debit	5,000	
Cash Account	Credit		5,000

#### Posting to Ledger:

Debit				Purchase Account				Credit			
Date	Particulars	J/F	Taka	Date	Particulars	J/F	Taka				
2017 Jan. 01	Cash Account		5,000								

Debit				Cash Account				Credit			
Date	Particulars	J/F	Taka	Date	Particulars	J/F	Taka				
				2017 Jan. 01	Purchase Account		5,000				

Looking at the posting, as purchase account is debited in journal, it is posted to the debit side of the purchase ledger, but in the particulars column the opposite credited head name i.e. Cash account is mentioned. On the other hand, Cash accounts is credit so it has been posted to credit side of Cash account but the particulars column is represented in the name of debit side account i.e. Purchase account. With these it is identifiable that purchase account is debited by which account, and cash account is credited by which account.

Therefore, the debit side posting of an account in a ledger will be recorded in the name of its subsequent account into the particular column vice versa.

### Balancing of Accounts

During the time of preparing a ledger, the first step is posting and the next step is balancing. In general terms the word balancing means what remains. For example: 5 kg of rice purchased and 3 kg of which have been consumed so the remaining is 2 kg. Ascertaining the balance of an account is almost like this. The difference between the posted amount in debit and credit side of the accounts is known as balancing.

Cash account balance is calculated after being posted of the following two transactions -

2017

March 3              Goods Sold                      Tk. 20,000

March 10          Furniture Purchased      Tk. 15,000

### Journal Entry

Date	Particulars	L/F	Debit Taka	Credit Taka
2017 Mar. 3	Cash Account              Dr. Sales Account              Cr.		20,000	20,000
" 10	Furniture Account        Dr. Cash Account              Cr.		15,000	15,000

### 'T' Table

Debit				Cash Account				Credit	
Date	Particulars	J/F	Taka	Date	Particulars	J/F	Taka		
2017				2017					
Mar. 3	Sales Account		20,000	Mar. 10	Furniture Account		15,000		
				" 31	Balance C/D		5,000		
			20,000						20,000
Apr. 1	Balance B/D		5,000						

- The debit and credit side summation must be equal. So, the amount which is higher must be recorded on either sides of the accounts. In the above account the debit side indicate the higher amount and hence has been written Tk. 20,000 on both debit and credit sides.
- Underneath the summation of each side the accounts must be closed by drawing two parallel lines.

- Generally at the end of a specific time the difference between the debit and credit side is ascertained. The difference is then headed by balance C/D i.e. carried down putting in the lower side for making both side equal. The above account is for the month of March, so the difference is calculated at the end 31st March.
- Balance C/D at the end of a particular period will be posted to the opposite side of the account mentioning Balance B/D i.e. brought down at the beginning of a next period.
- The balance represents the higher amount it indicates. For example the above cash account indicates debit balance, so on April 01 Balance B/D is written on the debit side of Cash account and the ledger of April has been opened.

C/D	Carried Down
B/D	Brought Down
C/F	Carried Forward
B/F	Brought Forward

**Activity:**

Debit				Cash Account				Credit	
Date	Particulars	J/F	Taka	Date	Particulars	J/F	Taka		
2017				2017					
May 2	Capital Account		30,000	May 3	Purchase Account		8,000		
" 5	Sales Account		10,000	" 7	Furniture Account		4,000		
" 9	Debtors Account		5,000	" 25	Salaries Account		3,000		

Calculate the balance of above account.

**'Moving Balance' - Table**

Cash Account					Code No. of Account	
Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017						
March 3	Sales Account		20,000		20,000	
March 10	Furniture Account			15,000	5,000	

- The balance of accounts is ascertained any time. The balance is calculated just after each posting.
- There are separate columns for showing the balance in the moving balance method

Accounts Posting	Balance of Accounts
Debit Posting	Debit Balance +
Credit Posting	Debit Balance -
Credit Posting	Credit Balance +
Debit Posting	Credit Balance -

- The total of debit and credit posting is not ascertained. This summation has no use.

**Activity:****Bank Account****Code No. of Account...**

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017						
July 1	Sales Account		8,000			
" 3	Sales Account		6,000			
" 8	Purchase Account			3,000		
" 10	Drawings Account			1,000		
" 20	Rent Account			2,000		

Calculate the balance of above account.

C/D or C/F is ascertained at the end of a certain time. This balance is again recorded as B/F or B/D to the opposite side at the beginning of the next month. Whenever the debit posting equals the credit posting the balance becomes Zero and c/d or b/d is not required to be written. This type of account is known as the balanced account.

**General/ Normal Balance of Accounts**

Classification of Accounts	Types of Balance
Assets	Debit Balance
Liabilities	Credit Balance
Equity	Credit Balance
Revenue	Credit Balance
Expense	Debit Balance



### Preparing of Ledger from General Journal

On 1 March 2017 Mr. Shahin started a business named 'Shahin Trader' with capital of tk.1,00,000. Transactions for the month were -

March. 2 Furniture purchased tk.20,000.

„ 3 Goods purchased on credit tk. 30,000.

„ 5 Goods sold tk. 25,000

„ 8 Purchase returned tk. 2,000.

„ 12 Tk.10,000 paid to creditor.

„ 18 A bank account opened by depositing tk. 15,000.

„ 22 Goods sold and received a cheque tk. 8,000.

„ 25 Goods Purchased from Shafiq by cheque tk. 6,000.

„ 28 Salaries paid to the employees tk. 5,000.

Journalize the above transactions and Calculate the balance by transferring to concerned Ledger accounts.

**Solution:**

#### General Journal of Shahin Trader

Date	Particulars	L/F	Debit Taka	Credit Taka
2017	Cash Account Dr.	-	1,00,000	
March 1	Capital Account Cr. (For cash bought in as capital.)	-		1,00,000
„ 2	Furniture Account Dr. Cash Account Cr. (Furniture Purchased for cash)		20,000	20,000
„ 3	Purchase Account Dr. Creditors Account Cr. (Goods bought on credit.)		30,000	30,000
„ 5	Cash Account Dr. Sales Account Cr. (For goods sold for cash.)		25,000	25,000
„ 8	Creditor Account Dr. Purchase Return Account Cr. (For returning bought goods)		2,000	2,000

Date	Particulars	L/F	Debit Taka	Credit Taka
„ 12	Creditor Account Dr. Cash Account Cr. (Paid cash to the creditor )		10,000	10,000
„ 18	Bank Account Dr. Cash Account Cr. (Being account opened with bank.)		15,000	15,000
„ 22	Bank Account Dr. Sales Account Cr. (For Sold goods by cheque)		8,000	8,000
„ 25	Purchase Account Dr. Bank Account Cr. (Purchased from Shafiq by cheque )		6,000	6,000
„ 28	Salaries Account Dr. Cash Account Cr. (Salaries paid to the employees)		5,000	5,000
<b>Total</b>			<b>1,21,000</b>	<b>1,21,000</b>

### List of accounts

- |                      |                     |                            |
|----------------------|---------------------|----------------------------|
| 1. Cash Account      | 4. Purchase Account | 7. Purchase Return Account |
| 2. Capital Account   | 5. Creditor Account | 8. Bank Account            |
| 3. Furniture Account | 6. Purchase Account | 9. Salaries Account        |

### 'T' Format

Debit				Credit			
Cash Account							
Date	Particulars	J/F	Taka	Date	Particulars	J/F	Taka
2017				2017			
March 1	Capital A/c		1,00,000	March 2	Furniture A/c		20,000
„ 5	Sales A/c		25,000	„ 12	Creditors A/c		10,000
				„ 18	Bank Account		15,000
				„ 28	Salaries A/c		5,000
				„ 31	Balance C/D		75,000
			1,25,000				1,25,000
April 1	Balance B/D		75,000				

Debit				Capital Account				Credit	
Date	Particulars	J/F	Taka	Date	Particulars	J/F	Taka		
2017				2017					
March 31	Balance C/D		1,00,000	March 1	Cash Account		1,00,000		
			1,00,000	April 1	Balance B/D		1,00,000		

Debit				Furniture Account				Credit	
Date	Particulars	J/F	Taka	Date	Particulars	J/F	Taka		
2017				2017					
March 2	Cash Account		20,000	March 31	Balance C/D		20,000		
			20,000				20,000		
April 1	Balance B/D		20,000						

Debit				Purchase Account				Credit	
Date	Particulars	J/F	Taka	Date	Particulars	J/F	Taka		
2017				2017					
March 3	Creditors Account		30,000	March 31	Balance C/D		36,000		
"    25	Bank Account		6,000				36,000		
			36,000						
April 1	Balance B/D		36,000						

Debit				Creditors Account				Credit	
Date	Particulars	J/F	Taka	Date	Particulars	J/F	Taka		
2017				2017					
March 1	Purchase Return A/c		2,000	March 3	Purchase Account		30,000		
"    12	Cash Account		10,000				30,000		
"    31	Balance C/D		18,000						
			30,000	April 1	Balance B/D		18,000		

Debit				Sales Account				Credit	
Date	Particulars	J/F	Taka	Date	Particulars	J/F	Taka		
2017				2017					
March 31	Balance C/D		33,000	March 5	Cash Account		25,000		
				" 22	Bank A/c		8,000		
			33,000						33,000
				April 1	Balance B/D		33,000		

Debit				Purchase Return Account				Credit	
Date	Particulars	J/F	Taka	Date	Particulars	J/F	Taka		
2017				2017					
March 31	Balance C/D		2,000	March 8	Creditors A/c		2,000		
			2,000						2,000
				April 1	Balance B/D		2,000		

Debit				Bank Account				Credit	
Date	Particulars	J/F	Taka	Date	Particulars	J/F	Taka		
2017				2017					
March 18	Cash Account		15,000	March 25	Purchase A/c		6,000		
" 22	Sales A/c		8,000	" 31	Balance C/D		17,000		
			23,000						23,000
April 1	Balance B/D		17,000						

Debit				Salaries Account				Credit	
Date	Particulars	J/F	Taka	Date	Particulars	J/F	Taka		
2017				2017					
March 28	Cash Account		5,000	March 31	Balance C/D		5,000		
			5,000						5,000
April 1	Balance B/D		5,000						

**"Moving Balance"- Format**

Cash Account					Code No. of Account...	
Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017						
March 1	Capital Account		10,000		10,000	
" 2	Furniture Account			20,000	80,000	
" 5	Purchase Account		25,000		1,05,000	
" 12	Creditors Account			10,000	95,000	
" 18	Bank Account			15,000	80,000	
" 28	Salaries Account			5,000	75,000	

Capital Account					Code No. of Account...	
Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017						
March 1	Cash Account			1,00,000		1,00,000

Furniture Account					Code No. of Account...	
Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017						
March 2	Cash Account		20,000		20,000	

Purchase Account					Code No. of Account...	
Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017						
March 3	Creditor Account		30,000		30,000	
" 25	Bank Account		6,000		36,000	

Creditors Account					Code No. of Account...	
Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017						
March 3	Purchase Account			30,000		30,000
" 8	Purchase Return		2,000			28,000
" 12	Cash Account		10,000			18,000

Sales Account			Code No. of Account...			
Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017						
March 5	Cash Account			25,000		25,000
" 22	Bank Account			8,000		33,000

Bank Account			Code No. of Account...			
Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017						
March 18	Cash Account		15,000		15,000	
" 22	Sales Account		8,000		23,000	
" 25	Purchase Account			6,000		17,000

Purchase Return Account			Code No. of Account...			
Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017						
March 8	Creditors Account			2,000		2,000

Salaries Account			Code No. of Account...			
Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017						
March 28	Cash Account		5,000		5,000	

**Activity:**

Post the following Transactions into the ledger account and balance the accounts of Rumana Enterprise.

2017

- August 1 Sold goods on credit tk.15,000
- " 2 Loan has taken of tk.30,000
- " 6 Deposited in the Bank tk.10,000
- " 8 Purchased goods returned tk.2,000
- " 12 Cash tk.6,000 received from debtor
- " 15 Withdrawn cash from Bank for personal use tk.1,000

- .. 20 Goods purchased by cheque tk.4,000
- .. 25 Goods sold tk.12,000.

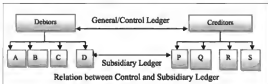
Divide into two groups, one follow 'T' and other 'Moving Balance' method.  
Match the balances with one another.

### General Ledger:

Cash Account, Capital Account, Purchase Account, Sales Account, Furniture Account, Debtors Account, Creditors Account etc. are General Ledger. There are several Debtors & Creditors in a business. Among the all-general ledgers, only the Debtors & Creditors accounts are also known as Control Account. Because both debtors & creditors account are the summation of all debtors & all creditors.

### Subsidiary Ledger:

Individual account is opened for each debtor and each creditor outside general ledger. Thus, the individual amount due from debtor & due to creditors can be ascertained easily. The account that is prepared for each debtor & creditors are called Subsidiary Ledger.



### Special Journal & Related Ledger Preparation

We have got the idea about all Special Journals in the chapter- 'Journal'. Here the procedure of preparing General and Subsidiary ledgers from special journals are shown -

# **Purchase Journal and Related Ledgers**

## **Momotaj Enterprise's Purchase Journal**

Date	Account Credited	Condition	Invoice No.	Source	Purchase A/c	Dr. Creditors A/c Cr.
2017 June 3	Rajib stores	2/10, net 30	173		17,600	
" 10	Rakhi Traders	3/10, net 20	174		12,300	
" 25	Haider Enterprise	3/5, net 15	175		10,500	
					40,400	

## **General Ledger**

### **Purchase Account**

Code No of Account...

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 June 30	Creditors A/c		40,400		40,400	

### **Creditors Account**

Code No of Account...

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 June 30	Purchase A/c			40,400		40,400

## **Subsidiary Ledger**

### **Rajib Stores**

Code No of Account...

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 June 3	Purchase A/c			17,600		17,600

### **Rakhi Traders**

Code No of Account...

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 June 10	Purchase A/c			12,300		12,300

### **Haider Enterprise**

Code No of Account...

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 June 25	Purchase A/c			10,500		10,500

The posting is made to the subsidiary ledger from special journal everyday and to the general ledger at the end of week/ month.



## Sales Journal and Related ledgers

## Shahjahan and Sons' Sales Journal

Date	Account Debited	Invoice No.	Source	Debitors Account Sales Account	Dr. Cr.
2017 Aug. 3	Kajol Enterprise	335		25,460	
" 10	Monika Enterprise	336		17,240	
" 25	Bimol Brothers	337		13,300	
				56,000	

## General Ledger

## Sales Account Code No of Account....

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 Aug. 31	Creditors A/c			56,000		56,000

## Debitors Account Code No of Account....

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 Aug. 31	Sales Account		56,000		56,000	

## Subsidiary Ledger

## Kajol Enterprise Code No of Account....

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 Aug. 3	Sales Account		25,460		25,460	

## Monika Enterprise Code No of Account....

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 Aug. 10	Sales Account		17,240		17,240	

## Bimol Brothers Code No of Account....

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 Aug. 25	Sales Account		13,300		13,300	

# **Purchase returns Journal and related ledger**

## **Bakshi Electronic Store's Purchase Return Journal**

Date	Account Debited	Debit Note No.	Source	Creditors A/c Purchase Return A/c	Dr. Cr.
2017					
Jan. 3	Sayed and Brothers	57		13,910	
" 12	Bakkar and Sons	58		17,240	
" 23	Babu Enterprise	59		2,450	
				38,600	

## **General Ledger**

### **Purchase Return Account**

Code No. of Account....

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017						
Jan. 31	Creditors Account			38,600		38,600

Creditors Account

Code No. of Account....

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017						
Jan. 31	Purchase Return A/c		38,600		38,600	

## **Subsidiary Ledger**

### **Sayed and Brothers**

Code No. of Account....

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017						
Jan. 3	Purchase Return A/c		13,910		13,910	

### **Bakkar and Sons**

Code No. of Account....

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017						
Jan. 12	Purchase Return A/c		17,240		17,240	

### Babu Enterprise

Code No of Account....

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 Jan. 23	Purchase Return A/c		7,450		7,450	

### Sales Return Journal and Related ledgers

#### Alom Trader's Sales Return Journal

Date	Credit Account	Credit Note no.	Source	Sales Return A/c Dr. Debtors Account Cr.
2017 May 2	Rashed and Co.	123		10,350
" 15	Parvez Stores	124		8,650
" 27	Runa Enterprise	125		4,500
				23,500

#### General Ledger

##### Sales Return Account

Code No of Account....

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 May 31	Debtors' Account		23,500		23,500	

##### Debtors' Account

Code No of Account....

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 May 31	Sales Return A/c			23,500		23,500

#### Subsidiary Ledger

##### Rashed and Co.

Code No of Account....

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 May 2	Sales Return A/c			10,350		10,350

##### Parvez Store

Code No of Account....

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 May 15	Sales Return A/c			8,650		8,650

### Runa Enterprise

Code No of Account...

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 May 27	Sales Return A/c			4,500		4,500

### Verifying arithmetical accuracy by Ledger balances

Equal amount of debit and credit is posted for each transaction. Being equal of total debit & total credit balance indicate the arithmetical accuracy of accounts. On July 01, 2017 Mr. Rakib started a business named 'Rakib Traders' with cash tk. 30,000 and goods worth tk. 15, 000. Other transactions were-

- July 2      Sold goods for cash tk.20,000.
- „    3      Furniture Purchased tk.5,000.
- „    5      Tk.3000 deposited i to Bank.
- „    10      Goods purchased tk.7,000.
- „    15      Withdrawn tk.1,000.
- „    20      Salaries Paid to the employees tk. 2000.

### Table of Accounts

- |                     |                      |                     |
|---------------------|----------------------|---------------------|
| 1. Cash Account     | 4. Sales Account     | 7. Drawings Account |
| 2. Purchase Account | 5. Furniture Account | 8. Salaries Account |
| 3. Capital Account  | 6. Bank Account      |                     |

### General Ledger

#### Cash Account

Code No of Account...

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 July 1	Capital Account		30,000			30,000
„    2	Sales Account		20,000			50,000
„    3	Furniture Account			5,000		45,000
„    5	Bank Account			3,000		42,000
„    10	Purchase Account			7,000		35,000
„    15	Drawings Account			1,000		34,000

**Purchase Account**

Code No of Account....

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 July 1	Capital Account		15,000		15,000	
- 10	Cash Account		7,000		22,000	

**Capital Account**

Code No of Account....

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 July 1	Cash Account			30,000		
	Purchase Account			15,000		45,000

**Sales Account**

Code No of Account..

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 July 2	Cash Account			20,000		20,000

**Furniture Account**

Code No of Account..

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 July 3	Cash Account		5,000		5,000	

**Drawings Account**

Code No of Account..

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 July 15	Cash Account		1,000		1,000	

**Bank Account**

Code No of Account....

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 July 5	Cash Account		3,000		3,000	
- 20	Salaries A/c			2,000	1,000	

**Salaries Account**

Code No of Account....

Date	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
2017 July 20	Bank Account		2,000		2,000	

Arithmetical accuracy of accounts can be verified with the balances of ledger by preparing Trial Balance. Trial Balance is prepared with balances of above ledgers.

### Trial balance

31 July 2017

Sl. No.	Account Name	L/F	Debit Taka	Credit Taka
1	Bank Account		34,000	
2	Purchase Account		22,000	
3	Capital Account		—	45,000
4	Sales Account		—	20,000
5	Furniture Account		5,000	
6	Drawings Account		1,000	
7	Bank Account		1,000	
8	Salaries Account		2,000	
			65,000	65,000

As the total debit balance tk. 65,000 is equal to total credit balance, it is easy to say accounts recorded correctly.

N. B. Detail discussion on Trial Balance have mentioned in the chapter 9.

### Exercise

#### Multiple-choice Questions

- From which one we can have idea of total income, expenses, assets & liabilities of business?
  - General Journal
  - Special Journal
  - General Ledger
  - Subsidiary Ledger
- What ledger is prepared separately for Debtors & Creditors?
  - General Ledger
  - United Ledger
  - Subsidiary Ledger
  - Control Ledger
- Account's Ledger is-
  - Primary book
  - Final book
  - Permanent book
 Which one is correct of the following?
  - i & ii
  - i & iii
  - ii & iii
  - i, ii & iii
- Which balance does always indicate by expense account?
  - Debit
  - Credit
  - Opening
  - Closing

5. By following the moving balance method to prepare ledger –  
i) Possible to know the total amount of debit posting  
ii) Possible to know the total amount of credit posting  
iii) Balance of account can be known regularly  
Which one is correct of the following?  
a) i & ii                      b) i & iii                      c) ii & iii                      d) i, ii & iii
6. If total debit side of a account is greater than the total of credit side, Which balance will be disclosed ?  
a) Income                      b) Liabilities                      c) Debit                      d) Credit
7. What does C/D used in ledger mean?  
a) Carried forward                      b) Carried down  
c) Come to down                      d) Come from back
8. Debit balance of ledger indicates-  
i) Asset    ii) Expense    iii) Income  
Which one is correct of the following?  
a) i & ii    b) i & iii    c) ii & iii    d) i, ii & iii
9. Subsidiary ledger relate to-  
i) Debtor account    ii) Creditors account    iii) Bank account  
Which one is correct of the following?  
a) i & ii    b) i & iii    c) ii & iii    d) i, ii & iii
10. For preparing ledger-  
i) Analyzing transaction compulsory  
ii) Journalizing compulsory .  
iii) Journalizing helpful  
Which one is correct of the following?  
a) i & ii    b) i & iii    c) ii & iii    d) i, ii & iii
11. Which one is prepared with ledger balances?  
a) Cash book                      b) Accounts receivable  
c) Accounts payable                      d) Trial balance

Considering the following, answer the question no. 12,13 and 14:

Cash Account				Account code no....		
Date	Account title	J.F.	Debit Taka	Credit Taka	Balance Taka	
					Debit	Credit
2017						
June 01	Balance B/D				10,000	
June 13	Furniture A/c		2,000			
June 18	Purchase A/c			5,000		
June 30	Sales A/c		8,000			

12. Which one is the general journal for June 13?

- |                      |        |                      |        |
|----------------------|--------|----------------------|--------|
| a) Furniture account | Debit  | b) Furniture account | Debit  |
| Cash account         | Credit | Purchase account     | Credit |
| c) Cash account      | Debit  | d) Furniture account | Debit  |
| Furniture account    | Credit | Sales account        | Credit |

13. What is the closing balance of Cash account?

- a) tk.10,000    b) tk.12,000    c) tk.15,000    d) tk.18,000

14. What is revealed from the account of the cash transaction in June, that is

- i) Total cash received tk.10,000  
 ii) Total cash payment tk.5,000  
 iii) Closing cash in hand tk.5,000

Which one is correct of the following?

- a) i & ii    b) i & iii    c) ii & iii    d) i, ii & iii

### Creative Questions:

1. Few transactions of 'Niramoy Pharma' situated in Shahabag of Dhaka during January 2017 mentioned below :

- January 1 Started business with Cash tk.55,000, Computer tk.50,000 and Saleable Medicine worth tk.30,000.  
 January 3 Medicine bought from Jahan Drugs tk.80,000.  
 January 7 Sale of old Printer machine for tk.3,200  
 January 18 Expired medicine returned to Jahan Drugs tk.6,000  
 January 27 Sold medicine in cash tk.1,40,000



- a) Calculate opening capital considering mentioned information.
  - b) Give Journal entries for the transactions from January 3 to 27.
  - c) Prepare Cash Account, Office Equipment Account, Purchase Account & Creditors Account using above transactions.
1. Arman Traders is a wholesaler business organization of grocery goods. Few transactions of September 2017 are mentioned below-
- Sep. 01 Purchased from Farhaan Brothers; 50 bales minicote rice at tk.2,500 each bale (50 kg. rice in a bale). Trade discount @3%. Invoice no.123.
- Sep. 05 Purchased from Irfaan Traders; 200 kg. pulses at tk.105 per kg. Trade discount 5%. Invoice no.432.
- Sep. 12 5 bales rice returned to Farhaan Brothers due to inferior quality.
- Sep. 18 20 kg. pulses returned to Irfaan Traders for not being sample.
- a) Prepare a purchase Journal from the above transactions.
  - b) Prepare the general ledger accounts considering the above transactions.
  - c) Prepare the subsidiary ledger accounts considering the above transactions.
3. The following account collected from Masud Enterprise's accounts book:

Cash Account							
Debit				Credit			
Date	Particulars	J/F	Taka	Date	Particulars	J/F	Taka
2017				2017			
Jan. 01	Balance B/D		20,000	Jan. 02	Bank account		22,000
Jan. 17	Sales account		17,000	Jan. 15	Salary account		2,000
				Jan. 20	Drawings account		1,000

- a) Determine the balance of cash account of Masud Enterprise.
- b) Show the journal entries for the month of January 2017 considering the above account of Masud Enterprise.
- c) Prepare Sales account, Bank account, Salary account, and Drawings account following moving balance method.

4. Mr. Borua is a businessman. He has a nursery named 'Borua Nursery' at Ashuliya of Savar. He produces different types of sapling of flowers, fruits, and medicated trees. On July 2017 the following transactions occurred in his business :

July 05 Trees and seeds purchased from Rahim & Sons tk.25,000.

July 10 Sold to Rashed & Co in cash tk.37,000.

July 19 Trees returned tk.2,500.

July 30 Salary paid to employee tk.4,500.

July 31 Advertisement expense tk.1,500.

- Record the transactions of Borua Nursery dated July 05 and 10 in Journal.
- Determine the balance of Rahim & Sons account and Cash account using 'T' ledger format.
- Prepare Purchase account, Sales account, Salary account and Advertisement account using 'Moving Balance' ledger format.

## Chapter Eight

### Cash Book

Business and cash are closely related to each other. In every sphere of business, cash is essentially required. Buying and selling of assets & goods, collection & payments of debts, receipts of income & payments of expenses including all other activities the supply of cash and its proper management is significantly important. Cashbook is prepared based on the nature and size of the business, considering the size and safety of the business, bank plays a supporting role during cash transactions. It is essentially needed to know the transactions done through bank and the bank balance.



Picture : Different types of Cash

**At the end of this chapter, we will be able to-**

- explain the concept of cash book and its importance
- prepare various types of cashbook and draw balance
- prepare contra entry
- cash receipt journal and cash payment journal
- record cash discounts
- transfer the balances of cashbook to ledger properly
- have idea about bank statement
- understand the reason behind the differences between the balances of bank statement and cash book

**Concept of Cash Book:**

Everyday numerous transactions take place in business. We can categorize transactions based on a fixed criterion. The criterion is cash. Either there is an involvement of cash with transactions or not. The book where cash received & paid transactions are recorded together is called cash book. Cash book is the primary book of accounts, one of the major branches of journal.

- Goods sold for cash tk.20,000
- Goods purchased in cash tk. 10,000
- Furniture purchased in cash tk.5,000
- Received cash from debtors tk.12,000
- Withdrawn cash from business by the owner tk.3,000
- Employees salary paid in cash tk.5,000
- The amount of bill paid in cash tk. 4,000.

**Activity:** Find the similarities among the above transactions.

**Features:**

Cash is the operating power of business. Without the proper management of cash the normal activities of business are hampered-

- For preparing cash book a particular table/proforma is followed. All the receipts are recorded in the debit side while the payments in the credit side.
- Though the cash book is known as the primary book of accounts, it acts as a permanent book.
- It can be ascertained from the cash book that how much cash have been received and paid against different sources in a particular period.
- It is possible to know the cash balance by identifying the difference between cash received & cash paid.
- The chances of cash stolen, forgery, wastage and mistake in recording reduce significantly.
- It is possible to have full control over cash reserve.

**Importance of Cash Book**

The proper recording of cash transactions helps maintaining the movement of the business as well as helpful in taking proper decision. We can know the total amount of cash receipts and payments, cash balance of a particular time, amount of total cash purchase and sale. Whether the amount of cash is sufficient to

purchase asset, to pay creditors and regular expenses of the business or not. If not then cash book helps in ascertaining the probable means to collect. It is possible to identify and rectify the mistakes and anomalies by comparing the cash balance with the actual cash in hand. Preparing particular type of cash book, it is also possible to know the bank transactions and bank balance.

**Activity:** What kind of other benefits can we get through preparing cash book?

### Classification of Cash Book

Various types of cash books are seen in the business. The right type of book is selected depending on the nature and size of the business. Cash books being used for a long time are of four types.

1. Single Column Cash Book
2. Double Column Cash Book
3. Treble Column Cash Book
4. Petty Cash Book

Now a days some organizations are preparing following journal to calculate cash receipts and cash payments separately instead of traditional cash book:

1. Cash Receipt Journal
2. Cash Payment Journal

Students need to have a clear concept about each of the cash book. So each class and its preparation are described below:

### Single Column Cash Book

Comparatively business of small size prepares single column cash book. Organizations that don't deal with bank rather prefer cash transactions, keep single column cash book. Since transactions through bank are safe, the number of these organizations and keeping accounts under single column cash book is gradually decreasing.

### Format of Single Column Cash Book

Debit					Credit				
Date	Receipts	V. No.	L/ F	Amount Tk.	Date	Payments	V. No.	L/ F	Amount Tk.

Note: V. No. - Voucher Number and L/F - Ledger Folio.

The format of a single column cash book is like the 'T' format of a ledger. The table is divided into Debit and Credit where the receipts are recorded into the debit side while the payments are recorded into the credit side. Single column cash book is prepared with 10 columns where debit and credit sides have 5 columns each. Single column cash book always denotes debit balance because the payments cannot be more than the receipts but can be equal. The procedure of determining the balance is similar to the procedure of 'T' format of a ledger. During the settlement of debts and credits if any discount is allowed or received it is recorded in journal proper not in a single column cash book.

### Preparing Single Column Cash Book

Transactions of Sharif Traders during June 2017 are the following-

- June 1 Opening cash in hand tk. 2,500  
 - 2 Additional capital brought in tk.10,000  
 - 4 Purchased goods in cash tk.7,000.  
 - 6 Goods sold to Jamal for cash tk.8,000.  
 - 10 Took loan from Alam tk.15,000  
 - 15 Rent paid in advance tk.4,000  
 - 20 Received from debtor tk.6,000  
 - 22 Withdrawn cash by the proprietor tk.1,000  
 - 25 Equipment purchased tk.9,000  
 - 30 Salary paid to Mamun tk.3,000

Prepare a Single Column Cash Book from the above transactions -

#### Sharif Traders's Single Column Cash Book

Debit					Credit				
Date	Receipts	V No.	L/F	Amount Tk.	Date	Payments	V No.	L/F	Amount Tk.
2017									
Jun 1	Balance B/D			2,500	Jun 4	Purchase A/c			7,000
- 2	Capital A/c			10,000	- 15	Prepaid rent A/c			4,000
- 6	Salaries A/c			3,000	- 22	Drawings A/c			1,000
- 10	Alam's loan A/c			15,000	- 25	Equipments A/c			9,000
- 20	Debtors A/c			6,000	- 30	Salaries A/c			3,000
				41,500	- 30	Balance C/D			17,500
Jul 1	Balance B/D			17,500					41,500

**Activity:** On 1st June 2017 Abu Taleb Sarker started a business named Taleb Enterprise with a capital of Tk.20,000. His transactions for the month were-

- June 1 Furniture purchased tk.5,000  
 - 3 Goods purchased on credit tk.8,000  
 - 4 Goods sold to Azad for cash tk.6,000

June 7	Goods purchased tk.4,000
" 9	Cash paid to creditor tk.3,000
" 11	Advertisement expenses paid tk.2,000
" 16	Stationary purchased tk.500.
" 26	Commission received tk.1,000
" 28	Goods sold tk.7,000

Prepare a Single Column Cash Book from the following transactions.

### Double Column Cash Book

Organizations that deal with both cash as well as bank transactions prepare double column cash book. The double column cash book is more applicable and provide much information compared to a single column cash book. Apart from receipts and payments done in cash, the increase or decrease of cash in bank as well as bank balance can be obtained from a double column cash book.

### Format of Double Column Cash Book

Debit						Credit					
Date	Receipts	V. No.	L/F	Cash Tk.	Bank Tk.	Date	Payments	V. No.	L/F	Cash Tk.	Bank Tk.

**Activity:** Identify the similarities & differences between Single and Double column cash book.

If transactions increase the cash of bank, it is to be recorded into the bank column of debit side while decrease of the same will be recorded into the bank column of the credit side. If cheque received for goods sold or from debtors, it will be treated as a crossed cheque because a cheque issued in favour of the business is never treated as a bearer or an open cheque. Bank column can exhibit either debit or credit balance. Debit balance indicates bank deposit and credit balance indicates bank overdraft Before preparing a double column cashbook, we need to know the following things:

### Contra Entry

The transactions that influence both the cash as well as the bank account are known as contra entry. Cash and bank both denote asset. So for a fixed transaction if one account is debited the other account must be credited.

After giving posting to the both sides of Cash book the letter - 'C' may be written beside the name of both accounts to identify.

**Activity:** Mention the transactions that jointly affects both Cash & Bank accounts

**Rules related to record transactions in double and treble column cash book.**  
**Cash deposited into the Bank**

Debit						Credit					
Date	Receipts	V. No.	L / F	Cash Tk.	Bank Tk.	Date	Payments	V. No.	L / F	Cash Tk.	Bank Tk.
	Cash A/c (C)				✓		Bank A/c (C)			✓	

**Withdrawn cash from Bank for business purpose**

Debit						Credit					
Date	Receipts	V. No.	L / F	Cash Tk.	Bank Tk.	Date	Payments	V. No.	L / F	Cash Tk.	Bank Tk.
	Bank A/c (C)			✓			Cash A/c (C)				✓

**Deposited cheque Dishonored**

Debit						Credit					
Date	Receipts	V. No.	L / F	Cash Tk.	Bank Tk.	Date	Payments	V. No.	L / F	Cash Tk.	Bank Tk.
							Respective party				✓

**Issued cheque dishonored**

Debit						Credit					
Date	Receipts	V. No.	L / F	Cash Tk.	Bank Tk.	Date	Payments	V. No.	L / F	Cash Tk.	Bank Tk.
	Respective party				✓						

**Interest allowed by the bank**

Debit						Credit					
Date	Receipts	V. No.	L / F	Cash Tk.	Bank Tk.	Date	Payments	V. No.	L / F	Cash Tk.	Bank Tk.
	Bank Interest received A/c				✓						



### Interest & Charges charged by the Bank

Debit

Credit

Date	Receipts	V. No.	L. /P	Cash Tk.	Bank Tk.	Date	Payments	V. No.	L. /P	Cash Tk.	Bank Tk.
							Bank Interest paid A/c				✓
							Bank Charge A/c				✓

### Preparing Double Column Cash Book

During the month of November 2017 the following transactions took place in Chowdhury & Sons:

- Nov. 1 Cash in hand tk.5,000 and Cash at Bank tk. 3000.
- 2 Goods purchased by cheque tk. 2000.
  - 4 Received cheque from debtor tk. 6000.
  - 6 Purchased IPS for office tk. 5000.
  - 8 Old furniture sold tk. 9000.
  - 12 Cheque received from Rajib on selling of goods tk.7,000.
  - 15 Withdrawn cash from Bank for personal use tk. 2000.
  - 20 Drawings from Bank tk.5,000.
  - 23 Received from Mehazbin tk. 3000
  - 25 Cash paid to Anwar tk. 3000
  - 28 Interest allowed by Bank tk. 300
  - 30 Bank charged tk. 200

Prepare a Double Column Cash Book from the above transactions.

### Solution

#### Chowdhury & Sons Double Column Cash Book

Debit						Credit					
Date	Receipts	V. No.	L. /P	Cash Tk.	Bank Tk.	Date	Payments	V. No.	L. /P	Cash Tk.	Bank Tk.
2017						2017					
Nov. 1	Balance B/D			5,000	3,000	Nov. 2	Purchase A/c				3,000
- 4	Debitors A/c				6,000	- 4	Office Equipment A/c			3,000	
- 8	Furniture A/c			9,000		- 15	Drawings A/c				3,000
- 12	Sales A/c				7,000	- 20	Cash A/c (C)				3,000
- 20	Bank A/c (C)			5,000		- 25	Anwar A/c			3,000	
- 23	Mehazbin A/c			3,000		- 28	Bank charge A/c				200
- 28	Bank interest				300	- 30	Balance C/D			14,000	7,100
				22,000	16,300					22,000	16,300
Total	Balance B/D			14,000	7,100						

**Activity:** Nargis & Bros. is a retailer. During the month of November 2017 following transactions took place-

Nov.	1	Cash in hand tk. 7,000 and cash at Bank tk. 5,000.
"	2	Goods purchased by cheque tk. 4,000.
"	4	Received a cheque from sale of goods tk. 6,000
"	7	Withdraw from Bank tk. 3,000.
"	10	Cash from Bills receivable received by Bank tk. 2,000.
"	13	Cheque received from debtor Sayed tk. 8,000.
"	20	Purchased furniture in cash tk. 3,000 and tk. 2,000 in cheque.
"	26	Withdraw by the proprietor tk. 1,500.
"	30	Bank allowed Interest tk. 500.

Record the transactions in the double column Cash Book and calculate the amount of cash & bank balance at the last date of the month.

### Treble Column Cash Book

Treble column cash book is prepared for transactions with cash and bank along with mitigating debts and credits. We can know about cash balance, bank balance, total discount allowed and total discount received. For collecting the amount of goods sold on credit quickly, the seller allows the buyer such kind of discount. This discount is known as cash discount. Discount received is an income for the buyer while discount allowed is an expense for the seller.

### Format of Treble Column Cash Book

Debit							Credit						
Date	Receipts	V No.	L /F	Dis Tk.	Cash Tk.	Bank Tk.	Date	Payments	V No.	L /F	Dis Tk.	Cash Tk.	Bank Tk.

There are total fourteen columns where debit and credit sides having 7 columns each in both side of a treble column cash book. Cash and bank columns are just like the double column cash book for recording and ascertaining balances. The discount columns on either sides of a cash book are recorded separately, but the difference is not obtained. Discount during the time of buying and selling, that is trade discount is not at all recorded.

**Preparing Treble Column Cash Book**

During the month of March 2017 following transactions took place in Salina Traders:

March	1	Cash in hand tk. 18,000; Bank overdraft tk. 3,000
"	3	Deposited in the Bank tk. 5,000.
"	6	Received cash tk. 6,800 from Sayem in full settlement of debt tk. 7,000.
"	10	A cheque received from Sumi and discount allowed tk. 100.
"	14	Withdrawn cash from business for personal use tk. 500.
"	16	Goods sold for cash tk. 12,000.
"	18	Goods purchased of tk. 8,000 at a discount of 5%.
"	20	Bank paid the amount of notes payable tk. 2,000.
"	24	Cheque received from Arif tk. 6,500 and discount allowed tk. 500
"	30	Interest charged by the Bank tk. 400

From the above information, prepare a Treble Column Cash Book.

**Solution:****Sallina Traders****Tribble Columns Cash Book**

Debit								Credit			
Date	Receipts	V. No.	L/F	Dis. TL.	Cash TL.	Bank TL.	Date	Payments	V. No.	L/F	Dis. TL.
2017 Mar. 1	Balance B/D				18,000		2017 Mar. 1	Balance b/d			
" 3	Cash A/c (C)					5,000	" 3	Bank A/c (C)			
" 6	Soyam A/c			200	6,800		" 10	Sumi A/c			100
" 16	Sales A/c				12,000		" 14	Darwaga A/c			
" 24	Asif A/c			500		6,500	" 18	Purchase A/c			
							" 20	Notes payable A/c			
							" 20	Bank interest A/c			
				700	36,800	11,500	" 31	Balance C/D			
Apr. 1	Balance B/D				23,700	2,700					

**Activity:** Record the following transactions during July 2017 in Amoh Trader's Treble Column Cash Book.

- July 1 Cash in Hand tk. 4,000 & Cash at Bank tk. 5,000  
 " 4 Withdraw from Bank tk. 3,000.  
 " 5 Received tk. 2,800 from Rotan stores and allowed discount tk. 200.  
 " 7 Goods purchased from Tazul Islam for cash tk. 6,000 at a discount of 10%.  
 " 12 At a discount of 5%, the debt of tk. 4,000 is fully settled.  
 " 15 Cheque received from selling of goods tk. 8,000  
 " 20 Tk. 7,200 received from Salchin in full settlement of his debt tk. 7,500.  
 " 28 Salaries paid in cash tk. 2,000 and cheque tk. 1,000.  
 " 30 Rent Obtain from tenant tk. 2,000.

### Illustration-01

Transactions of M/S Quamrul Traders in May 2017 were-

- May 2 Cash in Hand tk. 9,300  
 " 3 Received from Shamim tk. 2,000.  
 " 4 Withdraw from business for personal requirement tk. 3,500  
 " 6 Repair cost paid for old Furniture tk. 1,500.  
 " 10 Purchased from Zakir for cash tk. 4,000.  
 " 16 Interest received of investment tk. 500.  
 " 20 Goods sold tk. 6,000.  
 " 25 Salary paid tk. 3,000.  
 " 28 Realized tk. 1,200 against Bills receivable & paid tk. 800 for Bills payable.

Prepare Single Colum Cash Book from the above transactions.

**Solution** M/S Quamrul Trader's Single Column Cash Book

Debit					Credit				
Date	Receipts	V NO	L/ F	Amount Tk.	Date	Payments	V NO	L/ F	Amount Tk.
2017					2017				
May 1	Balance B/D			9,300	May 4	Drawings A/c			3,500
" 3	Shamim A/c			2,000	" 6	Repair A/c			1,500
" 16	Interest on investment			500	" 10	Purchase A/c			4,000
" 20	Sales A/c			6,000	" 25	Salaries A/c			3,000
" 28	Notes receivable A/c			1,200	" 28	Notes payable A/c			800
					" 31	Balance C/D			6,200
				19,000					19,000
June 1	Balance B/D			6,200					

**Double Colum Cash Book****Illustration-02**

Prepare Double Column Cash book of Jahid & Sons in April 2017-

- April 1 Cash in hand tk. 12,000 and Bank overdraft tk. 3500  
 " 2 Tk.4,000 deposited to Bank.  
 " 5 Goods sold and received cash tk. 2,500 and cheque tk. 1,500.  
 " 8 Goods bought from Rajib for tk. 3,000 paying tk. 2,000.  
 " 14 Withdraw from business for personal use tk. 1,000.  
 " 19 Issued cheque to Razib tk. 1,000  
 " 23 Received from Mamun tk. 5,000  
 " 24 Paid to Mustum tk. 5,000  
 " 25 Bank charge debited tk. 300.

**Solution:****Jahid & Sons' Double Column Cash Book**

Debit						Credit					
Date	Receipts	V. No.	L. F.	Cash Tk.	Bank Tk.	Date	Payments	V. No.	L. F.	Cash Tk.	Bank Tk.
2017						2017					
Apr 1	Balance B/D			12,000		Apr 1	Balance B/D				3,500
" 2	Cash A/c (C)				4,000	" 2	Bank A/c (C)			4,000	
" 5	Sales A/c			2,500	1,500	" 8	Purchase A/c			2,000	
" 25	Mamun A/c			5,000		" 14	Drawings A/c			1,000	
						" 19	Rajib A/c				1,000
						" 24	Mamun A/c			5,000	
						" 25	Bank charge A/c				300
						" 30	Balance C/D			1,500	500
				19,500	5,500					19,500	5,500
May 1	Balance B/D			1,500	500						

**Treble Column Cash Book****Illustration - 03**

Prepare a Treble Column Cash Book of Ali & Bros. from the following transactions for March 2017:

- March 1 Cash in hand Tk. 9,300 and Bank Credit balance tk. 2,700.  
 " 5 Ashraf Traders deposited cash in the Bank tk. 5,000.  
 " 7 Withdraw cash from bank for personal use tk. 2,000.  
 " 9 Received a cheque from Anafat Traders tk.6,300 in full settlement of tk.6,500.  
 " 13 Goods purchased for cash tk.2,000 and by cheque tk.1,000.  
 " 19 Paid creditor a cheque of tk.2,000 and discount received tk. 200.  
 " 21 Proprietor deposited into bank personally tk.10,000.  
 " 24 Cheque received on Feb. 9 dishonored by the bank.  
 " 27 Salaries paid tk. 3,000 and rent paid by the cheque tk. 6,000.  
 " 28 Bank Interest charged tk. 400

## Solutions:

## Ali &amp; Bros.

## T-accounts Cash Book

Debit

Credit

Date	Receipts	V. No.	L/ F	Dts. Tls.	Cash Tls.	Bank Tls.	Date	Payments	V. No.	L/ F	Dts. Tls.	Cash Tls.	Bank Tls.
2017 March 1	Balance B/O				9,100		2017 March 1	Balance b/d					2,700
" 5	Amal's Trading A/c					5,000	" 7	Drawings A/c					2,000
" 9	Amal's Trading A/c			200		6,300	" 13	Purchase A/c				2,000	1,000
" 21	Capital A/c					10,000	" 19	Creditors A/c					2,000
							" 24	Amal's Trading A/c			200		4,300
							" 27	Salaries A/c				3,000	
							" 27	Rent A/c					6,000
							" 28	Bank interest A/c					400
							" 31	Balance C/D				4,300	900
April 1	Balance B/O			200	9,300	21,300					200	9,300	21,300
					4,300	900							

### Cash Receipt Journal

All cash & cash equivalent received in transactions record in Cash Receipt Journal to know the total cash inflow of a specific period of time. Cash equivalent means cash & any cheque or ATM card used in transaction. The Cash Receipts Journal is made in such a way that it's easy to understand each source of cash received.

#### Cash Receipt Journal

Date	Account Credited	Source	Cash Debit	Discount Debit	Sales Credit	Debtors Credit	Others Account Credit

**Date** : The date when receiving of cash will occur.

**Account Credited** : When debts will be received from the debtors, then the name(s) of the debtor(s), and when there will be income from irregular source(s) the name(s) of that item(s) will be recorded.

#### Debit:

- Cash** : In this column, the total amount of cash receipts (Cash or cheque) will be recorded.
- Discount** : If discount is allowed receiving from debtors, the amount of discount will be recorded in this column.

#### Credit:

- Sales** : Goods if sold in cash are recorded in this column.
- Debtors** : The total amount of cash received from debtors & discount allowed, its summation is recorded in this column.
- Other Accounts** : Except from goods sold in cash and received from debtors the other receipts are recorded in this column.

### Preparing Cash Receipt Journal

The following receipts are occurred in May 2017 in Shahjahan & Co.

May 3 Goods sold for cash tk.10,000.

- 5 Cash received from Shafiq Traders tk. 3,000.
- 10 Brought extra capital of tk. 5,000.
- 15 Received tk. 3,800 from Zaman & Sons in full settlement of his debt of tk. 4,000
- 20 Sold old furniture tk. 1,000



### Shahjahan & Company's Cash Receipt Journal

Date	Account Credited	Source	Cash Debit	Discount Debit	Sales Credit	Debtors Credit	Others A/c Credit
2017							
May 3			10,000		10,000		
- 5	Shafiq Traders		3,000			3,000	
- 10	Capital		5,000				5,000
- 15	Zaman & Sons		3,800	200		4,000	
- 20	Furniture		1,000				1,000
			<u>22,800</u>	<u>200</u>	<u>10,000</u>	<u>7,000</u>	<u>6,000</u>

Observing the above cash receipt journal, the total Debit amount  $(22,800 + 200) = 23,000$  and the total Credit amount  $(10,000 + 7,000 + 6,000) = 23,000$ . These two totals have to be equalled always.

### Cash Payment Journal

All cash & cash equivalent payment in transactions record in Cash Receipt Journal to know the total cash inflow of a specific period of time.

#### Cash Payment Journal (Format)

Date	Cheque No.	Debit Account	Source	Purchase Debit	Creditor Debit	Others Account Debit	Discount Credit	Cash Credit

**Date** : The date on which transaction will occur is recorded.

**Cheque No** : If payment is made through cheque then cheque no. is recorded in this column.

**Debit Account Item** : If creditor is paid its name and while payment made to other party, their names will be recorded in this column.

#### Debit:

1. Purchase : Goods purchased in cash are recorded in this column.

2. Creditors : Payments made to creditors and discount received from them its sum is recorded in this column.

3. Other Accounts : Except goods purchase in cash and payments made to creditors, the other items that relates to cash payments are recorded in this column.

#### Credit:

1. Discount received : During the time of payments made to creditors, the amount of discount received is recorded in this column.

2. Cash : All cash or cheque payments are recorded in this column.

Withdrawn from bank for business and money deposited into bank from business, both these transactions will not be recorded in cash receipt and cash payment journal because these transaction keep cash liquidity unchanged. Bank interest allowed will be recorded in cash receipt journal and interest on bank overdraft and bank charges in cash payment journal.

### Preparing Cash Payment Journal

Following cash payment transactions are of Moushum Enterprise for July 2017:

- July 2 Goods purchased for cash tk. 5,000.
- .. 5 Paid to Miloo Traders tk. 3,000 by cheque no.68943
- .. 8 Furniture Purchased tk.4,000.
- .. 15 Interest paid on loan tk. 500.
- .. 20 Tk. 2,800 paid to Runa and received discount tk. 200.

Moushum Enterprise's Cash Payment Journal

Date	Cheque No	Account Debited	Source	Purchase Debit	Creditors Debit	Others Account Debit	Discount Credit	Cash Credit
2017								
Jul 2				5,000				5,000
.. 5	68943	Miloo Traders			3,000			3,000
.. 8		Furniture				4,000		4,000
.. 15		Interest on loan				500		500
.. 20		Runa			3,000		200	2,800
				5,000	6,000	4,500	200	15,300

As like the Cash receipt journal, total debit & total credit amount of Cash payment journal will be always equal. In the above Cash payment journal Total Debit (4,500 + 6,000 + 5,000)=15,500 and Total Credit (200 + 15,300)=15,500.

**Activity :** Prepare Cash Payment Journal from the following transactions of Sohrab Traders for October 2017

- Oct. 1 Goods Purchased by cash tk. 9, 000
- .. 4 Paid Khalid and sons tk. 6,500
- .. 7 Stationary purchased tk. 500
- .. 10 Paid Rasel tk. 5,300 and received discount tk. 200
- .. 16 Purchased goods from Safi enterprise tk. 14,000
- .. 20 Loan paid tk.8,000
- .. 26 Salaries paid to the employees tk. 4,500
- .. 30 Withdraw cash tk. 2,000 by the owner
- .. 30 Rent received from tenant tk. 2,000.

### Total Cash Receipt & Total Cash Payment transfer of Ledger:

By preparing Cash Receipt Journal and Cash Payment Journal we come to know the total amount of cash receipts and cash payments. Cash Book is prepared for ascertaining the cash balance of a certain time. Opening cash balance of a certain time is added to the cash receipts while the cash payments are deducted from it to ascertain the closing cash balance.

#### Cash Receipt Journal

Date	Account Credited	Source	Cash Debit	Discount Debit	Sales Credit	Accounts Receivable Credit	Others Account Credit
2017 May 2	Khadja Stores		20,000			20,000	
" 7	Shawon Traders		7,500	500		8,000	
" 10	Int. on Investment		1,000				1,000
" 19	Shaymol		8,000		8,000		
" 26	Jamal		6,000		6,000		
			42,500	500	14,000	28,000	1,000

#### Cash Payment Journal

Date	Cheque No.	Account Debited	Source	Purchase Debit	Accounts Payable Credit	Others Account Debit	Discount Credit	Cash Credit
2017 May 2		Furniture				4,000		4,000
" 3		Purchase		5,000				5,000
" 8		Mariam Stores			3,000		500	3,500
" 25		Salaries				2,000		2,000
" 28		Drawings				1,000		1,000
				5,000	3,000	7,000	500	15,500

Cash Account				Code no. of account....		
Date	Particulars	J/F	Debit Tk.	Credit Tk.	Balance	
					Debit	Credit
2017 May 1	Balance b/d				7,500	
" 31	Total Credit Accounts		42,500		50,000	
" 31	Total Debit Accounts			15,500	34,500	

**Bank Account related Transactions**

Innumerable transactions take place in today's business. Transactions made through cash are very risky. Transactions mitigated through bank are very safe. For making transactions through bank at first, a bank account needs to be opened. A person or firm who opens a bank account is known as a depositor.

**Bank Statement**

The statement that is made by bank mentioning the full details of its depositor is known as bank statement. Nowadays this statement is done by computer. Money or cheque deposited into bank, money withdrawn from bank or payment made through bank, bank interest or bank charge including all other information are available chronologically in a bank statement. Apart from recording in a bank statement, a depositor also keeps records of all transactions related to bank in a cash book and identifies balances. The balance of a bank statement and the bank balance of a cash book should be understandably equal. However, as always, this balance may not be equal, and then bank reconciliation statement is required to be prepared.

**Bank Reconciliation Statement**

The statement that is prepared for identifying the differences between the balance of bank statement and bank column of cash book is known as bank reconciliation statement.

**The reasons for differences between the balance of bank statement and the bank column of cash book**

- For collection of cheque through bank, if it is not collected in due time there will be a case of difference between the balances.
- A cheque issued for clearing of debts, if not produced before the bank in due time there will be differences.
- If bank on behalf of its client make any payment or receive any collection without informing the client, there will be differences.

**Activity:** Identify the other reasons for differences between the balances.

## Exercise

### Multiple Choice Questions

1. Despite being the primary book of account, which one works like a permanent book?
  - a) Journal
  - b) Ledger
  - c) Cash Book
  - c) Trial Balance
2. Will be recorded in cash book-
  - i) Capital brought in tk.50,000
  - ii) Sold to Janata Traders tk.20,000
  - iii) Stationery goods purchased tk.1,000Which one is correct of the following?
  - a) i & ii
  - b) i & iii
  - c) ii & iii
  - d) i, ii & iii
3. Which one will be recorded in single column cash book?
  - a) Goods purchased by cheque tk. 4,000
  - b) Furniture purchased tk. 6,000
  - c) Goods drew tk.1,000
  - d) Goods returned tk. 500
4. Which balance does single column cash book always disclose?
  - a) Debit
  - b) Credit
  - c) Bank deposit
  - d) Bank overdraft
5. Received a cheque for selling goods, what type of cheque is this?
  - a) Bearer cheque
  - b) Order cheque
  - c) Crossed cheque
  - d) Opened cheque
6. Which letter is used while writing contra entry?
  - a) B
  - b) C
  - c) K
  - d) F
7. Contra entry is —
  - i) Cash deposited to bank
  - ii) Debtor directly deposited into bank
  - iii) Drew from the bank for business needsWhich one is correct of the following?
  - a) i & ii
  - b) i & iii
  - c) ii & iii
  - d) i, ii & iii
8. Which discount is recorded in the treble column cash book?
  - a) Purchase discount
  - b) Discount allowed
  - c) Sales discount
  - d) Trade discount

9. Will be recorded in cash receipt journal -

- i) Goods purchased in cash
- ii) Goods Sold in cash
- iii) Bank Interest allowed

Which one is correct of the following?

- a) i & ii
- b) i & iii
- c) ii & iii
- d) i, ii & iii

10. Which one records in the cash payment journal?

- a) Sale of furniture
- b) Debts realised
- c) Loan paid
- d) Goods sold

11. The institution that opened an account into the Bank, what is that called?

- a) Banker
- b) Depositor
- c) Receiptent
- d) Investor

12. Accounts that are affected by the Contra entry-

- i) Capital account
- ii) Cash account
- iii) Bank account

Which one is correct of the following?

- a) i & ii
- b) i & iii
- c) ii & iii
- d) ii & iii

**Read the following passage and answer the questions no. 13 and 14:**

On July 10, 2017 Salauddin & Sons deposited tk.10,000 into bank account; paid to Samina Stores by cheque tk.11,500 in full settlement of her claim tk.12,000; received a cheque from Mahbub Traders tk.14,000 in full settlement of his debt tk.15,000.

13. Which cash book is suitable for recording the transactions of 10<sup>th</sup> July 2014?

- a) Single column
- b) Double column
- c) Treble column
- d) Cash receipt journal

14. What is the amount of contra entry of Salauddin & Sons?

- a) tk.10,000
- b) tk.12,000
- c) tk.14,000
- d) tk.15,000

**Read the following passage and answer the questions no. 14 and 15:**

Owner of Habib Enterprise records all kinds of cash receipts and cash payments in the cash book. On 10 March, 2017- Goods purchased tk.20,000 and paid in cash tk.15,000. On 28 March, 2017- received from Robi tk.9,500 in full settlement of his debt tk.10,000.

15. What is the actual amount of debt of Habib Enterprise?
  - a) tk.35,000
  - b) tk.20,000
  - c) tk.15,000
  - d) tk.5,000
16. In which Cash book should we record the transaction of March 28?
  - a) Single Column
  - b) Double Column
  - c) Treble Column
  - d) Petty

### Creative Questions:

1. On May, 2017 the following transactions occurred in the 'M/S Deblila Clothes' at Islampur in Dhaka:

- May 1 Opening cash in hand tk. 60,000.
- " 4 200 Yards clothes sold at tk. 150 to Topsa Traders, Comilla in Cash allowing 5% discount.
  - " 10 Clothes purchased from 'Shahi Clothes' Pabna tk. 80,000.
  - " 13 Received from Sajal Traders tk. 40,000.
  - " 15 Shop Rent paid in advance tk. 30,000.
  - " 20 Clothes worth tk. 2,000 taken for owner's daughter.
  - " 25 Electricity bill paid for the month of April tk. 2,500.
- a) Give General Journal Entries for Non-Cash Transaction.
  - b) Prepare a Cash Memo for the transaction dated May. 4.
  - c) Prepare a single column Cash Book from the mentioned transactions.

2. Some transactions in June 2017 are as follows of 'Bonder Traders' Chittagong:

- June 1 Business started with cash tk. 1,20,000 and by depositing in Bank tk.2,00,000.
- " 3 Buying goods tk. 1,00,000 from Janata Traders paid tk.20,000 in cash & tk.30,000 by cheque.
  - " 5 A photocopies machine purchased for business use values of tk. 75,000.
  - " 9 Withdrew from Bank: for personal use tk. 5,000 and for business use tk. 10,000.
  - " 15 Paid tk. 3,000 for Carrying cost and Installation cost of photo copier Machine.
  - " 18 Bills Receivable tk. 25,000 realised and Bills Payable tk. 15,000 paid by Bank.

- " 22 Cheque received from Patenga stores tk. 13,000 and Discount allowed tk. 1,000.
  - " 26 Allowing 10% discount paid tk.20,000 in cash & tk.25,000 by issuing cheque to Jamuna Traders.
  - " 30 Bank interest allowed tk. 500 and charged tk. 1,000.
- a) Determine the cost of office Equipment of 'Bonder Traders'.
  - b) Prepare a double column cash Book with the transactions occurred on June 1 to June 15.
  - c) Prepare a Treble column cash Book with the transactions occurred on June 18 to June 30 considering the opening cash in hand tk.1,20,000 and Bank Balance tk.60,000.

3. On March, 2017 Transactions of Modern Stores, Rajshahi are as follows:

March 1 Cash Fund tk. 57,500.

- " 2 Goods purchased: in cash tk. 10,000 & by cheque tk. 15,000.
- " 5 Goods sold tk. 45,000, 60% by cheque and remaining amount in cash.
- " 10 Cash tk. 4,000 and Goods tk.1,000 Withdrawn for personal needs
- " 11 Loan taken from bank tk. 50,000.
- " 14 Paid by cheque (no.03254) to Sadman tk. 29,000 in full settlement of his claims tk.30,000.
- " 17 Received from Supti tk. 24,250 in settlement of his debt tk. 25,000.
- " 22 Shop rent tk.20,000 paid by cheque, cheque no. 032651.
- " 27 Sold old computer of business tk. 9,000.
- " 31 Interest allowed by bank tk.1,000.

- a) Determine the amount of transactions which will not include in Cash Receipt & Cash Payment Journal.
- b) Prepare a Cash Receipts Journal from the above transactions.
- c) Prepare a Cash Payments Journal from the above transactions for the month of March in Modern stores.

4. On March, 2017 Transactions of Ferdous Traders are as follows:

March 1 Cash balance tk. 7,500.

- " 4 Goods purchased from Sumon Traders in cash tk. 4,000 allowing 5% discount.
- " 8 Goods sold tk. 15,000.
- " 10 Chair purchased for business use tk. 3,000.
- " 11 Additional Capital brought in tk.45,000 in business by the owner.



- " 18 Paid to Arif Traders tk. 2,500.
  - " 20 Depreciation charged on furniture tk. 300.
  - " 22 Sold old furniture tk. 8,000.
  - " 25 Tk. 1,000 withdrawn for personal & tk. 5,000 withdrawn of business needs.
  - " 30 Bank interest and service charged tk. 500 and tk. 1,000 respectively.
- a) Write the General Journal Entries (without explanation), which transactions will not include in cash book.
  - b) Prepare a single column cash Book of Ferdous Traders with the transactions occurred on March 1 to March 11.
  - c) Prepare a Double column cash Book with the transactions occurred on March 12 to March 31 considering the opening cash in hand tk. 40,000 and Bank overdraft tk. 15,000.

5. On August, 2017 The following transactions are occurred in Nasir Enterprise:

- Aug. 1 Cash balance and Bank Balance respectively tk. 19,000 & tk. 24,000.
- " 2 Cheque receive from Rajib Traders for selling goods tk. 7,000.
  - " 5 Withdraw from bank tk. 5,000.
  - " 10 Goods purchased tk. 5,000. Discount 5%.
  - " 12 Received from Jafor stores tk. 5,800 in full settlement of his debt tk. 6,000.
  - " 18 Goods purchased from Sajjad & Sons in cash tk. 3,500.
  - " 20 Paid to Salima Traders tk. 4,300 and Discount received tk. 200.
  - " 25 Bank overdraft tk. 10,000 paid.
  - " 28 Interest on Bank overdraft tk. 500 paid.
  - " 31 Deducted tk. 1,000 for bank charge.

- a) Determine the total amount of Contra Entry from the above information.
- b) Prepare a Double Column Cash Book with the transactions occurred on August 1 to August 10.
- c) Prepare an applicable cash book using with the transactions occurred on August 12 to August 31 considering the opening cash fund tk. 55,000 & Bank O/D tk. 10,000.

6. The following transactions occurred in Hider & Sons during November 2017:

- Nov. 1 Sold goods to Shahid in cash tk 8,000 allowing 5% Discount.  
" 4 Received from Maliha tk. 5,000 and Discount allowed tk 100.  
" 5 Calculate purchased for office tk 500.  
" 9 Interest received from Investment tk.4,000.  
" 12 Paid to Jamal tk. 3,300 in full settlement of his claim tk. 3,500.  
" 18 Paid office rent tk. 2,500.  
" 20 Loan taken tk. 10,000.  
" 23 Goods purchased from Kamal Traders by cheque tk. 30,000 allowing 5% discount cheque no. 5302.
- a) Determine the amount of Cash Discount from the above information.  
b) Prepare a Cash Receipts Journal from the above transactions.  
c) Prepare a Cash Payments Journal from the above transactions.

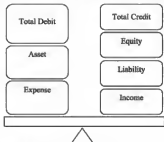
7. On January, 2017 The following transactions occurred in Kishor Brother's business:

- Jan. 1 Cash Balance tk. 30,000 & Bank overdraft tk 25,000.  
" 3 Goods purchased from Jahir Traders tk. 10,000 allowing 5% discount.  
" 5 Tk. 1,500 taken by the owner from business.  
" 10 Paid to Shoeb tk. 8,600 in full settlement of his claim tk.9,000.  
" 15 Goods purchased by cheque tk.7,000.  
" 20 Salary paid to Employees tk.4,000.  
" 25 Owner bought furniture tk.30,000 for business with own money.  
" 28 Received from Sumon tk.3,800 and Discount paid tk.150.  
" 29 Paid to Jahir Traders tk.9,300 in full settlement of his claim tk.9,500.  
" 30 Keeping tk.2,500 in hand the remaining amount deposited in to bank.
- a) Give the Journal Entries (without Explanation), of those transactions that will not be included in cash book.  
b) Prepare a Treble column cash book with the transactions occurred on January 1,28,29,31.  
c) Prepare a Cash Payments Journal with the transactions occurred in January 5 to January 20.

## Chapter Nine

# Trial Balance

Prior to the preparation of the financial statement to know the results of financial activities of a business concern at the end of the year, it is badly needed to ensure that all the transactions of that period have been recorded and posted correctly in the books of accounts of the organization. If the books of accounts are prepared without verifying the arithmetical accuracy, the prepared statement may not convey true information of the organization. A trial balance is prepared with the balances of ledger books with due and careful consideration of all possible errors of recording process in books of accounts. If the posting has been done accurately and the computation of account balances has been corrected, the total of all debits should be equal to the total of credits. In order to prove the accuracy that the total of accounts with debit balances agree with the total of credit balances, a statement i.e. trial balance is prepared. Errors can easily be identified and necessary steps for rectifying them can easily be taken through preparation of trial balance.



At the end of this chapter we will be able to –

- examine the arithmetical accuracy if the posting of entries is done accurately.
- find out the agreement and disagreement between debit and credit balances through revealing the errors.
- explain the necessity of using suspense account.
- make agreement between the balances temporarily by opening suspense account.

### Concept of Trial Balance:

A trial balance is a list of debit and credit balances extracted from the ledger including the balances of cash and bank columns of the Cash Book on a particular date. When the total of debit becomes equal to total of credit balances of the Trial Balance, generally it is assumed that there is no arithmetical mistake in the Ledger and Cash Book. Otherwise, there might be some sort of errors and mistakes following double entry system of accounting.

### Objectives of Trial Balance:

The main objectives of the preparation of trial balance are as follows:

1. Verification of posting the entries in journal and ledger accurately is one of the prime objectives of trial balance.
2. To facilitate in preparation of the Statement of Comprehensive Income and the Statement of Financial Position.
3. To discover the mistakes and rectify the errors, if any, present in the activities of maintaining journal and ledger.
4. To verify whether both the debit and credit aspects of the transactions as per double entry system have been recorded properly in the books of accounts.
5. To bring together all the balances of accounts in one place in order to facilitate the preparation of final accounts and reduce the wastage of labour and time thereby.
6. Trial balance can convey the information to the financial statements.

**Activity:** To test the arithmetical accuracy of the accounts is the main objective of Trial Balance— comments.

### Pro-forma of Trial Balance:

Name of the organization

Trial Balance

As at ——— 20———

Serial/ Code No.	Name of the Accounts/ Particulars	L.F.	Debit Taka	Credit Taka

Since trial balance is neither any part of accounting nor a compulsion to prepare that is why it does not have any recognized pro-forma to follow. Moreover IASC (International Accounting Standards Committee) has not yet designed any specific pro-formas for preparing trial balance. The above table is popularly used as specimen format for trial balance.

**Brief explanation of different columns of a trial balance is given below:**

1. **Serial/Code No.:** If there is any code no. of accounts then that code no. is put, otherwise the serial no. of ledger accounts are written in this column. Such as 1, 2, 3 etc.
2. **Name of the Accounts/ Particulars:** The full name of ledger accounts whose serial numbers have been written in the first column are put in this column. Such as, capital, furniture, cash etc.
3. **L.F. (Ledger Folio):** The page/pages of the ledger, where the balances of the concerned accounts are shown, are written in this column. By doing so errors can easily be identified and rectified.
4. **Debit Balance:** The amounts of the debit balances of the ledger accounts are written in this column.
5. **Credit Balance:** The amounts of the credit balances of the ledger accounts are written in this column.

### **Procedure of preparing Trial Balance:**

Transactions are recorded chronologically in Journal primarily. Later on, balance of each accounts calculated after transferring them permanently to ledger with separate account title. Without preparing the journal, transactions can also be posted directly in ledger and then the ledger accounts are balanced as well. After calculating all ledger account balances the trial balance prepared in a separate sheet of paper or book mentioning all debit balances on the debit column and credit balances on the credit column.

### **Factors to be considered in preparing Trial Balance:**

Prime objective of trial balance is to test and verify the arithmetical accuracy of accounts and that is why, special attention is given and also some important factors are considered in case of including balances from ledger to trial balance.

1. It is necessary to be careful about the recording of stock of goods. Value of opening stock of goods recorded in debit column as expense in Trial Balance for the date is prepared for.
2. While 'Adjusted purchase' or 'Cost of goods Sold' include in trial balance, then closing stock of goods will be shown in debit column of trial balance as assets without including opening stock of goods. Because  $\text{Adjusted purchase} = \text{Opening stock of goods} + \text{Net purchase} - \text{Closing stock of goods}$ .

3. In case of stock of Stationary, opening Stock of stationary have to be shown in debit column of Trial Balance but the closing stationary will not be included.
4. Opening balance of current assets & current liabilities i.e. cash in hand, bank balance, debtors, creditors etc. will not come in Trial balance because these are adjusted with related accounts closing balance.
5. Reserve created against assets, such as: Bad debt reserve or provision for doubtful debts, provision for discount on debtors or provision for discount on debtors or provision for discount payable and provision for discount on bills receivable record in credit of trial balance.
6. Provision created against liabilities, such as: provision for discount on creditors or provision for discount receivable and provision for discount on bills payable. As per the 'conservatism convention' of Accounting, it is inappropriate to charge provision against liabilities. If such provision are found in accounts, it may write in debit column of trial balance. It is best to skip charging provision on liabilities.
7. In some account title paid or received are not mentioned. In this case they are considered as expenses and written on the debit side of trial balance. Such as, rent, discount, commission, interest etc.
8. Sales ledger balances are considered as sundry debtors and put on the debit side.
9. Purchase ledger balances are considered as sundry creditors and put on the credit side.
10. Contingent liability and anticipated assets are not included in trial balance because business is not confirmed about their certainty. They are shown in the foot note.

If any disagreement is found, even after taking all necessary careful measures, then suspense account is opened temporarily to equal debit and credit columns. Suspense account is not a permanent kind of solution rather it is a temporary arrangement.

**Activity:** Find out the accounts which are not included in a trial balance.

### Procedure of preparing a Trial Balance taking ledger balances into consideration:

Where only ledger balances are given in the absence of ledger, the following rules should be followed to ascertain which of the balances will be written in the debit column and which will be written in the credit column of a trial balance.

The Ledger balances which are written on the debit side of Trial Balance	The Ledger balances which are written on the credit side of Trial Balance
All the assets: Land, building, leasehold property, machinery, furniture, investment, bills receivable, debtors, goodwill, cash in hand, cash at bank etc.	All liabilities: creditors, bills payable, bank overdraft, loan, etc.
All expenses: Purchase, wages, opening stock, salary, advertisement, rent, commission, repairs, office expenses, depreciation, bad debt, and discount allowed.	All types of income and profits: sales, interest received, discount received, apprenticeship premium, interest on investment, interest on bank deposit etc.
Expenses paid in advance: Salaries paid in advance, wages paid in advance, rent paid in advance is treated as an Asset as because the future benefit will come from that type of advance payment.	Outstanding expenses and unearned incomes: Advanced rent income, Advanced consultation fee is treated as a liability as because the future service is to be provided.
Accrued incomes: Interest accrued on investment, commission accrued, rent received is treated as an Asset as because the amount realized in future.	Reserves created by profit: Reserve for bad and doubtful debt, general reserve, reserve for discount on debtors.
Other Items: sales return, loan allowed, drawing.	Other Items: purchase returns, capital.

### Errors detected in Trial Balance:

Even after taking all necessary cautionary measures, there might be some unintentional errors which lead to disagreement in trial balance. These errors are less cumbersome to find out and rectify the trial balance. Such errors are:

1. **Errors of Omission:** While posting from journal to ledger, if mistakenly, debit has been given to the ledger but corresponding credit has not been given to the ledger account or vice versa. Moreover if any balance of account is not included in trial balance then it will not agree. Example: Cash paid to Rahim Tk. 5000.

Journal:     Rahim Bros. A/C— Dr Tk. 5,000  
                     Cash A/C———— Cr Tk. 5,000

At the time of transferring this to ledger, mistakenly it may so happen that only Rahim A/C or Cash A/C is transfer or only the balance of one account is transferred to trial balance.

2. **Errors of Commission:** Writing debit amount of the account on the credit side of the concerned ledger account or Writing credit amount of the account on the debit side of the concerned ledger account at the time of posting from journal to ledger. Both sides of trial balance will also not agree, if any transaction is posted twice in the same side of one account by mistake. Example:

Journal:

Rahim Bros. A/C— Dr tk. 5,000

Cash A/C——— Cr tk. 5,000

If Rahim A/C—Dr is shown in credit along with Cash— A/C on ledger or Cash A/C Cr. is written in debit along with Rahim A/C—Dr.

3. **Mistake in amounts of money:** While posting from journal to ledger, if mistakenly, not debiting and crediting both the accounts of a transaction with the same amount. That is, writing more or less amount in the ledger mistakenly while posting from journal. Example: Salary paid tk. 2,000. Mistake in Journal as—

Salary A/C—Dr tk. 2,000

Cash A/C——Cr tk. 20,000

OR, while posting in ledger- Mistakenly, Salary A/C is shown as tk. 20,000 and Cash A/C is shown as tk. 2,000 while posting in ledger.

4. **Error in Balancing of Ledger Account:** If there is any mistake in balancing the ledger account the trial balance will not agree. Example:

### Cash A/C

Dr.

Cr.

Date	Particulars	J.P.	Total	Date	Particulars	J.P.	Total
2017				2017			
Feb 1	Capital A/C		1,00,000	Feb 2	Furniture A/C		20,000
Feb 5	Sales A/C		25,000	Feb 12	Creditors A/C		10,000
				Feb 18	Bank A/C		15,000
				Feb 28	Salary A/C		5,000
				Feb 28	Balance C/D		65,000
			1,25,000				1,25,000
Mar 1	Balance B/D		65,000				

The Cash A/C shown above should bear a balance of tk. 75,000 but mistakenly it is written as tk. 65,000.



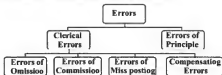
**5. Mistake in transferring ledger balances to trial balance:** While transferring the ledger balances to the trial balance, wrongly written the debit balance in credit side and vice versa.

**Activity:** “Even if the trial balance agrees, we cannot be certain that there is no mistake in accounts” – do you agree? Elucidate your comments.

**Errors not detected by the Trial balance:**

Agreement of trial does not ensure the hundred percent error freeness of accounts. Usually arithmetical accuracy is assumed if trial balance agrees. But there may be some types of mistakes, which will not be detected by a trial balance. These are called disadvantages or limitations of trial balance. This type of error is divided into two major types.

**The detailed descriptions of errors given below:**



### 1. Clerical errors:

**(a) Errors of omission:** If any transaction is not at all recorded then the amount of the transaction will not be recorded in concerned ledger account and/or if the transaction is not transferred from journal to ledger then both the columns of trial balance will be valued by equal sum lower amount of money. Such as, goods sold to Shimanto Traders, but not at all recorded in sales journal and ledger. But Trial balance will agree.

**(b) Errors of commission:** If any transaction is recorded in primary books of accounts by lower or higher amount of money then such lower or higher amount will also be recorded in the ledger concerned and thus the trial balance will agree as well. Such as, goods sold to Ratan Bros. of tk. 5,000. If it is recorded in Sales journal as tk. 50,000 then both Sales A/C and Ratan Bros. A/C will be higher valued by the amount of tk. 45,000 and Trial balance will agree.

(c) **Errors of miss posting:** Such errors are done because of the carelessness of employees. Suppose tk. 20,000 has been received in cash from Kalam Traders. Cash book is correctly debited with tk. 20,000 but while posting to the ledger Salam Traders account is credited in place of Kalam Traders account. Trial balance will agree because the total of credits has been the same, though the amount has been credited to a wrong account. Trial balance will agree in this case also.

(d) **Compensating errors:** If one mistake is corrected by another mistake then it is called compensating errors. Such as, Shihab Traders A/C is supposed to be debited with tk.5,000 but it has been debited with tk.500. In another occasion, Jamil Traders A/C was credited with Tk. 500 by mistake, instead of tk. 5,000. So both the accounts will be less by the same amount i.e. tk. 4,500. But Trial balance will agree for this error.

Finally it should be noted that, for the above four errors both debit and credit columns of trial balance will be equal but error remains.

**2. Errors of principle:** Errors which are done due to the lack of proper accounting knowledge or violation of recognized accounting principles are known as errors of principles. When Capital expenditure is recorded as Revenue expenditure and vice versa is an example of such errors. For example,

- a) Machine purchase tk.50,000;  
wrongly purchased debited instead of machine account.
- b) Repair of machine tk.5,000;  
wrongly machine account debited instead of repairs account

**Activity:** Identify and describe the errors and mistakes which may not be disclosed even if trial balance agrees.

**Method of correcting an incorrect Trial Balance:** If both sides of the trial balance do not agree then it is to be understood that there are some mistakes in the accounting process. So the cause of this disagreement is to be found out but there is no hard and fast rule to correct an incorrect trial balance. In many cases the following actions can be taken:

- (1) Verify the totals of the two columns in trial balance.
- (2) Check whether all the balances of ledger accounts have been correctly entered in the trial balance.
- (3) Check whether posting of the debit and credit balances have been correctly done in the appropriate side of the trial balance.

- (4) Check whether posting from Journals to the ledger accounts has correctly been done.
- (5) Check whether balance of any account posted to trial balance with changed amount or wrong column.
- (6) Find out the difference between the totals of the two columns of the trial balance is divisible by 2 (two). If so, then it is to be noted if there is any similar amount in the trial balance and whether the amount is placed in the right place in trial balance.
- (7) Check whether the balances of asset, liability and owner's equity account from previous year correctly transferred to current year's Ledger.

In spite of the above mentioned steps taken, if the mistakes or errors can not be detected, then the amount, by which the trial balance disagreed, should be put in "Suspense Account" for the time being. Subsequently, when the errors will be detected, those will be rectified through suspense A/C which will be closed after rectification of errors.

### **Suspense Account:**

Finding out the errors is necessary where totals of both the sides of trial balance do not agree. But in most of the cases the detection and rectification of errors take long time. So it is not rational and feasible to keep the work of preparation of Final Accounts pending for such a long time. Under the circumstance, disagreement of both the sides of trial balance is made equal through Suspense Account for time being. It is not a permanent solution rather a kind of temporary arrangement. If the total of credit side of trial balance becomes less than that of debit side, the suspense account will be shown on the credit side and vice versa. Afterwards, when the errors are detected the suspense account is closed through correction of those errors.

**Activity:** How the disagreement of both sides of trial balance can be solved?

### **Example-1:**

Following Ledger balances of 31 March 2017 got from the accounts book of Mamun Traders:

Cash - 1,19,000; Capital- 1,00,000; Sales- 60,0000; Debtor -9,000; Purchase - 20,000; Salary- 3,000; House rent expense-7,000; Wages expense-2,000.  
prepare a trial balance as on 31 march , 2011.

**Solution:**

**Mamun Trader's**  
**Trial Balance**  
**31 March 2017**

Serial No	Name of accounts	L: F:	Debit Taka	Credit taka
1	Cash		1,19,000	
2	Capital			1,00,000
3	Sales			60,000
4	Sundry Debtors		9,000	
5	Purchase		20,000	
6	Salary expense		3,000	
7	House rent expense		7,000	
8	Wages expense		2,000	
	Total		1,60,000	1,60,000

**Example-2:**

From the following Ledger balance of M/S Mukta traders, prepare Trial balance as on 31 December 2017:

Name of accounts	Taka	Name of accounts	Taka	Name of accounts	Taka
Capital	60,000	Drawings	2,480	Depreciation	1,410
Stock (1.1.17)	16,400	Business expense	990	Rent received	430
Sales	81,200	Cash in hand	600	Salary expense	4,300
Gas & Water	840	Cash at Bank	5,260	Insurance premium	1,060
Land & Building	20,000	Purchase	32,160	Return inward	490
Wages expense	18,490	Tax & Rates	840	Bills payable	4,000
Debtors	35,800	Furniture	1,250	Creditors	10,370
Commission	1,470	Bills receivable	1,470	Returns outward	6,400
Equipment	10,270	Cash at Bank (1.1.17)	6,700	Bank charge	3,370
Transportation	3,370	Stock of Goods (31.12.17)	19,400	Discount received	120

**Solution:**

**M/S Mukta Traders**  
**Trial Balance**  
**As on 31 december 2017**

serial	Name of Account	L:F	Debit Taka	Credit Taka
1	Capital			60,000
2	Stock (1.1.2017)		16,400	
3	Sales			81,200
4	Gas and water		840	
5	Land and building		20,000	
6	Wages		18,450	
7	Debtors		35,800	
8	Commission		1,470	
9	Machinery		10,270	
10	Transportation		3,370	
11	Drawings		2,480	
12	Trade expense		990	
13	Cash		800	
14	Balance Bank		5,260	
15	Purchase		32,160	
16	Tax and rates		840	
17	Furniture		1,250	
18	Bills Receivables		1,470	
19	Depreciation		1,410	
20	Rent received			430
21	Salary Expenses		4,300	
22	Insurance Expenses		1,060	
23	Return inward		490	
24	Bills Payable			4,000
25	Creditors			10,370
26	Return outward			6,400
27	Bank charge		3,370	
28	Discount received			120
	Total =		1,62,520	1,62,520

**Task:** Mahbuba Traders prepared Trial Balance wrongly as on 31 December 2017, you are required to prepare correct Trial Balance.

Serial no	Name of accounts	L: F:	Debit Taka	Credit Taka
1	Opening Stocks		50,000	
2	Capital		1,00,000	
3	Purchase			80,000
4	Sales			1,00,00
5	Commission received		10,000	
6	Salaries Expenses		20,000	
7	Rent Expenses			12,000
8	Bad debt		3,000	
9	Machinery		5,800	
10	Debtors			35,000
11	Creditors		40,000	
12	6% mortgage Loan		10,000	
13	Closing stock		80,000	
14	Sales return			2,000
15	Suspense Accounts			89,800
			<u>3,18,800</u>	<u>3,18,800</u>

## Exercise

### Multiple Choice question:

- What is the objective of preparing Trial Balance?
  - To determine financial condition
  - To verify the mathematical accuracy
  - To determine profit or loss
  - To reduce work load
- Debit side of Trial Balance will be recorded-
  - Capital
  - Drawings
  - Sales return
 Which one is correct?
  - i & ii
  - i & iii
  - ii & iii
  - i, ii & iii
- Which one is separated from other three?
  - Apprentice allowance
  - Apprentice premium
  - Insurance premium
  - Rent and Taxes

## 4. To be recorded in Trial Balance

- i) Opening stock
- ii) Opening cash balance
- iii) Closing cash balance

Which one is correct?

- a) i & ii
- b) i & iii
- c) ii & iii
- d) i, ii & iii

## 5. In a Trial Balance debit balance of 130 is wrongly recorded into credit side. If all other things remain same what will be the difference of both side of a Trial Balance?

- a) TK. 130
- b) TK. 65
- c) TK. 310
- d) TK. 260

## 6. What does Suspense account express in Trial Balance?

- a) Debit Balance
- b) Credit Balance
- c) Difference between debit and credit column
- d) Sum of Debit and credit column

## 7. Sales account debited tk. 5,000 for selling furniture; the type of error is-

- a) Error of omission
- b) Writing error
- c) Compensating error
- d) Error of principle

## 8. For which error both side of trial balance will agree?

- a) Purchase Account tk. 500 debited in excess
- b) Salaries Account debited twice
- c) Purchase Account debited for furniture purchase
- d) Drawing Account debited with tk. 200 instead of tk. 1,200

## 9. Salaries are debited with tk. 2,000 instead of tk. 2,500 and sales account credited with tk. 4,500 instead of tk. 5,000. What type of error is this?

- a) Errors of Principle
- b) Errors of Commission
- c) Errors of Omission
- d) Compensation Errors

## 10. The error which will create suspense account, that is-

- i) "Furniture purchase TK. 45,000" recorded Purchase Account debit TK. 45,000
- ii) "Goods purchase TK. 10,000" recorded Purchase Account credit Tk. 10,000
- iii) "Repair to Furniture TK. 2,000" recorded Furniture Account debit Tk. 20,000

Which one is correct?

- a) i & ii
- b) i & iii
- c) ii & iii
- d) i, ii & iii

**Read the following stem and answer the question no 11 and 12:**

Accountant of Zafrin & Sons' have posted 3 account balance tk. 3,000, tk. 6,000 & tk. 9,000 in the credit column of Trial balance because of not writing 'Paid' & 'Received.' As a result, Trial balance disagree.

11. What is the amount of suspense account in trial balance of Zafrin & Sons?
  - a) Tk. 9,000
  - b) Tk. 15,000
  - c) Tk. 18,000
  - d) Tk. 36,000
12. The error which is made in account while recording by the accountant, those include-
  - i) Salary
  - ii) Commission
  - iii) Discount
 Which one is correct?
  - a) i & ii
  - b) i & iii
  - c) ii & iii
  - d) i, ii, & iii

### Creative Questions:

1. Following Ledger balances of Shihab and Brothers as on December 2017 are as follows:-

Capital	1,10,000	Insurance Premium	5,000
Cash in hand (01/01/17)	15,000	Import duty	3,500
Debtors	25,000	Commission received	2,000
Creditors	15,000	Investment	30,000
Drawings	10,000	Interest on Bank Deposit	500
Purchase	30,000	Furniture	40,000
Sales	45,000	Advertisement	1,000
Interest on Investment	3,000	Opening Stock	25,000
Closing Stock	12,000	Closing Bank balance	6,000

- a) Calculate the total amount of those items which not include in Trial Balance?
  - b) Prepare a Trial balance of Shihab and Brothers from the above Ledger balances.
  - c) From the Trial Balance calculate Revenue Income & Revenue expenditure.
2. Balances of Jubili Enterprise as on 31 December 2017 are as follows:

Capital	150,000	Building	45,000
Furniture & Equipment	50,000	Debtors	30,000
Bills Receivable	30,000	Creditors	25,000
Bills payable	25,000	Salaries	5,000
General Reserve	5,000	Unearned Service Revenue	3,000
Cash in hand (1-1-2017)	6,000	Bank overdraft	2,000
Stocks (1-1-2017)	40,000	Cash in hand (31-12-2017)	10,000
Bad debt	5,000	Insurance	8,000
Provision for bad debt	3,000	Stocks(31-12-2017)	35,000



- In the Trial Balance of Jubili Enterprise which balances are not recorded and what amount of that?
  - From the above balance prepared a Trial Balance.
  - Determine Current Assets and Short-term Liabilities.
3. Accountant of M/S Saleh & co. prepared a Trial Balance but there are some irrelevance in that. Defective Trial Balance is as follows:

Trial Balance  
as at 31st December, 2017

S. No.	Accounting Title	L.F.	Debit Taka	Credit Taka
1	Opening Stock		34,000	
2	Purchase		1,00,000	
3	Salary		12,000	
4	Creditors		40,000	
5	Debtors		16,000	
6	Bank Balance			45,000
7	Return Inward		3,000	
8	Freight			5,000
9	Bills Payable		20,000	
10	Loan Taken			13,000
11	Building		55,000	
12	Discount allowed			10,000
13	Capital			67,000
14	Sales			1,40,000
15	Return Outward		6,000	
16	Stationery			5,000
17	Bad Debt			9,000
18	Allowance for Doulful Debts		8,000	
	Total		<u>2,94,000</u>	<u>2,94,000</u>

- Calculate the amount of Capital Receipts of M/S Saleh & Co.
- Calculate the amount of Revenue Expenditure from the above information.
- Prepare the Correct Trial Balance Considering the stem of M/S Saleh & Co.

4. Following Ledger balances of Ohi Ceramics are supplied as on 31 December 2017 for the purpose of mathematical accuracy verification:

	<b>Taka</b>		<b>Taka</b>
Capital	94,000	Training Allowance	5,000
Cash in hand 1/1/2017	15,000	Export duty	13,500
Receivable	22,000	Discount received	12,000
Payable	15,000	Investments	15,000
Income Tax	10,000	Dividend received	500
Purchase	1,30,000	Furniture	40,000
Sales	1,45,000	Opening Stocks	25,000
Rent Received	13,000	Closing Bank balance	16,000
Closing Stocks	22,000	Return inward	3,000

- Determine total amount that will not be included in the Trial Balance of Ohi Ceramics.
  - Prepare Trial Balance of Ohio Ceramics considering above information.
  - Calculate capital income and capital expenditure considering above information.
5. Following ledger balances of Sinthia Enterprise as on 31 December, 2017 are as follows:

<b>Accounting Title</b>	<b>Taka</b>	<b>Accounting Title</b>	<b>Taka</b>
Capital	1,85,000	Stationery	5,000
Unexpired Insurance	10,000	Utility expenses	70,000
Saving Certificate	1,00,000	Service Revenue	1,55,000
due Rent	12,000	Bank loan	1,00,000
Accrued Commission	30,000	Commercial expenses	1,30,000
Unearned Revenue	8,000	Accounts Receivable	25,000
Supplies expenses	34,500	Municipal & Tax	38,700
Postage & Telegram	22,800	Advertisement payable	12,000

- Calculate the amount of Capital Receipt from information mentioned above.
- Determine the amount of closing assets and liabilities of Sinthia Enterprise.
- Prepare a Trial Balance from the above information.

6. Following ledger balances of 'Doel Enterprise' as on 31 December, 2017 are as follows:

Accounting Title	Taka	Accounting Title	Taka
Capital	1,90,000	Mortgage loan	1,00,000
Cash fund	1,54,000	Purchase	2,54,000
Sales	4,67,000	Accounts Receivable	3,62,000
Drawings	15,300	Provident fund	60,000
Return Outward	3,500	Income Tax	9,200
Advance rent received	8,000	Deferred Advertisement	25,000
Prepaid Insurance	9,500	Closing stock of goods	15,500
Opening stock of goods	30,000	Accounts payable	41,500
Return Inward	11,000		

- Determine the amount of Adjusted Purchase from the above information.
- Prepare a Trial Balance of Doel Enterprise.
- Determine the amount of Closing Owner's Equity of Doel Enterprise.

## Ten Chapter

# Financial Statement

Every business organization prepares Financial Statement to know the financial position at the end of the definite period. There are two aspects of financial Statement: (i) Ascertainment of financial result of a specific period and (ii) Total assets, liabilities and equity of a specific date for a business organisation. The statement which is prepared to ascertain the profit and loss of the business is known as the Statement of Comprehensive Income and the statement prepared to ascertain the assets & liabilities is called the Statement of Financial Position, which was previously known as Balance Sheet.



Picture: Graph indicator of Profit and Loss

At the end of this chapter, we will be able to –

- differentiate between the transaction of capital and revenue nature as well as the application of this differentiation in preparation of financial statement.
- prepare the Statement of Comprehensive Income and also be able to explain the profits and losses.
- prepare the financial statement and differentiate between the varieties of fixed and current assets, long term and current liabilities
- understand how capital accounts can be affected through drawings of cash and merchandise, inclusion of new capital in the business or net profits and losses.
- realize the necessity of consideration of bad debts and provisions for those debts.
- apply depreciation in financial statement by understanding the meanings, objectives and necessity of depreciation
- interpret the need for evaluating the state of affairs as well as the necessity of ratio analysis.
- determine and analyze different types of ratios, for example, net profit to sales ratio, net profit to capital ratio, current assets and current liabilities ratio etc.
- compare the comprehensive income statement and important figures between two years and understanding the changes of financial position.

### Financial Statement

Five types of Financial statements are prepared to know the financial results and condition of the business as per International Accounting Standards. These Financial statements help the investors, bond holders and other accounting information users to make economic decision by providing accounting information of financial results, financial position and cash flow, etc. Financial statement is an important base to evaluate managerial efficiency and overall condition of the organization. Following 5 types of financial statements prepared according to the International Accounting Standard-01 (IAS-01) :

1. The Statement of Comprehensive Income
2. The Statement of Changes in Equity
3. The Statement of Financial Position
4. The Statement of Cash Flows
5. Notes, comprising a summary of significant accounting policies and other explanatory information provided in the financial statement.

In secondary stage (Class 9 & 10), the concept and process of preparation of first 3 parts of financial statements are illustrated:

#### The Statement of Comprehensive Income:

Revenue income & expenditure are recorded in comprehensive income statement. In service providing business organisations net profit is found after subtracting service providing expenditure from service revenue. On the other hand, in merchandising business gross profit is found after subtracting cost of goods sold from the amount of goods sold. And operating profit is found after subtracting operating expenditure from gross profit. Net profit before tax is found after adding other incomes & subtracting other expenses with operating profit. However, in sole proprietorship business earned profit considered as owner's income, hence the income tax payable considered as owner's personal expenses. So, in comprehensive income statement of such organisation net profit before tax is considered as net profit without subtracting income tax expenses.

**Objectives of the Statement of Comprehensive Income:**

- 1) We can know net profit and loss from comprehensive income statement. The owner that can not claim excess of the net profit. Because, claiming excess of net profit means the break down of capital structure which may lead to severe interruption of future business activities of the firm.
- 2) By analyzing different income and expenditures of the Statement of Comprehensive Income, we can know how to increase net profit of a firm by increasing future income and decreasing expenditures.

**Preparation of the Statement of Comprehensive Income (Service providing business):**

The Statement of Comprehensive Income is prepared in each year for a particular period of time. Net income is ascertained by deducting the expenditures from the income of that year.

**Preparation of the Statement of Comprehensive Income (Merchandising business):**

For a merchandising business, main source of income is Sales. It is the main operating income. There are some other income too, such as, commission received, rent received, interest received from the bank etc. Operating expenses are manager's salary, travelling & conveyance expenses, repairing & maintenance expenses, bad debt, depreciation, insurance expenses etc. Statement of Comprehensive Income is prepared mainly in three stages.

In first stage, Gross Profit is calculated by deducting Cost of Goods Sold from Net Sales.

In second stage, Operating profit is calculated by deducting Operating Expenses from Gross Profit.

In third stage, Adding other incomes with operating profit and from the sum of these two amount other expenses will be deducting to calculate Net profit.

The table given below shows the list of operating and non-operating incomes and expenses.

Income/Revenue		Expense		
Operating Income	Other Income	Cost of Goods Sold	Operating Expense	Other Expense
<ul style="list-style-type: none"> <li>• Goods Sold</li> <li>• Service Revenue</li> </ul>	<ul style="list-style-type: none"> <li>• Interest on Bank Deposit</li> <li>• Dividend Received</li> <li>• Rent revenue</li> <li>• Commission Income/Received</li> <li>• Profit on Sale of Fixed Assets</li> <li>• Discount Received</li> <li>• Interest on Investment</li> </ul>	<ul style="list-style-type: none"> <li>• Opening Stock of Goods</li> <li>• Goods Purchased</li> <li>• Carriage Inward</li> <li>• Import Duty</li> <li>• Freight</li> <li>• Dock Charge</li> </ul>	<ul style="list-style-type: none"> <li>• Salary &amp; Allowance</li> <li>• Travel &amp; Conveyance Exp.</li> <li>• Training Allowance</li> <li>• Printing &amp; Stationery</li> <li>• Postage &amp; Telegram Exp.</li> <li>• Electric, Gas &amp; Water/Utility Exp.</li> <li>• Office &amp; Warehouse Rent</li> <li>• Lease Rent</li> <li>• Bank Charge</li> <li>• Marketing &amp; Advertisement Exp.</li> <li>• Packing Exp.</li> <li>• Carriage Outward</li> <li>• Dep. on Building</li> <li>• Dep. on Office Equipment</li> <li>• Sales Commission</li> <li>• Insurance Exp.</li> <li>• Legal Exp.</li> <li>• Discount Exp./allowd</li> <li>• Goodwill written off</li> <li>• Patent written off</li> <li>• Trademark written off</li> <li>• Bad Debt</li> <li>• Miscellaneous Exp.</li> </ul>	<ul style="list-style-type: none"> <li>• Interest on Loan</li> <li>• Interest on Bank O/D</li> <li>• Loss on Sale of Fixed Assets</li> <li>• Interest on Debenture</li> <li>• Accidental Loss/ Sundry Loss</li> </ul>

**Sample table of the Statement of Comprehensive Income  
(Service providing business)**

Name of organisation.....

**Statement of Comprehensive Income**

For the year ended on .....

Particulars	Taken	Taken	Taken
<b>Income:</b> Service Revenue	+++		
Add: Service Revenue Receivable	+++		
Interest Revenue		+++	
Dividend Income/Received		+++	
<b>Total Incomes</b>			+++
<b>Less: Expenses:</b> Office Rent	+++		
Add: Dep.	+++		
Salary & Allowance		+++	
Electric & Telephone bill		+++	
Insurance Expense		+++	
Conveyance Expense		+++	
Legal Expense		+++	
Printing & Stationery		+++	
<b>Total Expenses</b>			(+++)
<b>Net Profit</b>			+++

**Sample table of the Statement of Comprehensive Income  
(Merchandising business)**

Name of the organisation.....

Statement of Comprehensive Income

For the year ended on .....

Particulars	Taka	Taka	Taka
Sales		****	
Less: Sales returns		(****)	
<b>Net sales</b>			*****
<b>Less: Cost of goods sold</b>			
Opening Stock		****	
Purchase	****		
Less: Purchase Returns	(****)		
<b>Net Purchases</b>		****	
Carriage Inward		***	
Import Duty		***	
		****	
Less: Closing Stock		(****)	
<b>Gross Profit</b>			(****) ****
<b>Less: Operating Expenses</b>			
Carriage Outward		****	
Salaries		****	
Office rent		****	
Office Electricity		****	
Office Expenses		****	
Discount allowed		****	
Repairs of Fixed Assets		****	
Postages & Telegrams		****	
Advertising		****	
Stationary		****	
Packing Expenses		****	
Traveling Expenses		****	
Insurance Expenses		****	
Depreciation on Fixed Assets		****	
Lease hold properties Written off		****	
Goodwill Written off		****	
Commission Paid		****	
Bank Charge		****	
Closing Bad Debt & Provision for doubtful debts	****		
<b>Less: Surplus of Provision for doubtful debts &amp; Bad debts</b> (Opening Balance - Bad debts written off)	(****)		
<b>Add: Deficiency of Provision for Bad debt &amp; doubtful debts</b> (Bad debts written off - Opening Balance)	****		
<b>Operating profit</b>		****	(****) *****



Particulars	Taka	Taka	Taka
<b>Other incomes:</b>			
Profit from selling of fixed assets		****	
Interest on investment		****	
Discount received		****	
Interest on loan paid		****	
Interest from bank deposit		****	
Commission received		****	
House rent revenue		****	
Dividend received		****	
			****
			*****
<b>Less: Other Expenses</b>			
Loss from selling of fixed assets		****	
Interest on debenture		****	
Interest on loan / bank loan		****	
Interest on bank overdraft		****	
Theft or Accidental losses		****	
			(****)
<b>Net Profit/Loss</b>			*****

Activity: Fill in the gaps (marked (?)) by correct figure

Business	Sales	Cost of goods sold	Operating expenses	Gross profit/ loss	Net profit/ loss
A	10,600	7,800	1,300	?	?
B	9,300	?	1,100	800	?
C	17,200	?	1,400	?	6,200
D	?	11,200	?	4,200	2,650

Some expenditure is discussed below:

- 1) **Cost of goods sold:** Total of the expenses incurred on the goods sold during a period to bring them into saleable condition is called cost of goods sold. Cost of goods sold = opening stock + (net purchase + other expenses related with purchase) - closing stock. Here other expenses related with purchase means carriage inward, import duty etc.

- 2) **Insurance:** Assets of business like Building, Machinery, and Stock-in-trade are insured against their destruction in any accident. Premium is to be paid to Insurance Companies at regular intervals. This Premium is treated as insurance expense.
- 3) **Depreciation:** Reduction of fixed asset arises from continuous use. This reduction is called depreciation. Changes in assets model usages, taste, keeping assets unused for a long time also cause depreciation.
- 4) **Bad Debt:** In case of credit sales, the amount which is confirmed to be not realized from debtors is called bad debt. The reason of bad debt is death, bankruptcy, absconding of debtors.
- 5) **Provision for Bad & Doubtful Debt:** The amount of debts which may not be realized is called doubtful debt, which is a probable loss and will be included in operating expenses.

Some incomes are discussed below:

- 1) **Dividend received:** Excess of necessary income is sometimes invested as shares at other companies. Dividend received from Shares is considered as other income.
- 2) **Interest received:** Additional incomes which are deposited at bank or invested at profitable ventures and get some benefit is called interest.

### Procedure of preparing Statement of Changes in Equity:

Statement of Changes in Equity is prepared to ascertain the closing balance of owner's equity at the end of the accounting period. To ascertain this, the additional amount of capital, net profit/loss and drawings are adjusted with the opening balance of owner's equity. A sample table of Statement of Changes in Equity is shown below:

Name of the organization—————

Statement of Changes in Equity

For the year ended on .....

Particulars	Taka	Taka
Capital (Opening Balance)		****
Add: Additional capital employed		****
(+) net profit / (-) net loss		****
		****
Less : Drawings	****	
Income Tax	****	****
Add : General reserve		****
<b>Equity (Closing Balance)</b>		****

**The Statement of Financial Position:**

To know the financial position of a business at the end of year the Statement of Financial Position is prepared with all assets and liabilities and capital. One can know the amount of fixed or current assets, long or short term liabilities and capital of the business from the Statement of Financial Position. Various decisions can be taken by analyzing this information, for example, we can know proportion of claim over assets; if current assets are sufficient to meet current liabilities, proportion of net profit over capital employed, etc.

**Procedure of preparing the Statement of Financial Position:**

Information is recorded in the Statement of Financial Position in two stages. Assets are shown dividing into four types in first stage, i.e. 1) Fixed assets, 2) Long term investment, 3) Current assets & 4) Fictitious assets. Equity and liabilities are shown at the second stage. Liabilities are divided into two types, i.e. 1) Long term liabilities & 2) Current or Short term liabilities.

Assets & liabilities are summarised in the statement of financial position under two methods, i.e. 1) Permanence preference method & 2) Liquidity preference method. In permanence preference method fixed assets are written at the beginning of summarising assets. Investment, current assets & fictitious assets are written chronologically there after. Again long term liabilities are shown at the beginning & current liabilities are shown at the end of writing liabilities. Contrary, liquidity preference method is opposite of permanence preference method. However, if there are any fictitious assets, it will be shown at the end of all assets.

**Importance of classification of assets and liabilities:**

Different assets are of different nature and they have varieties of objectives in business. It is necessary to know how quickly an asset will be encashed, how quickly a liability will be paid for the sake of efficient management of assets. And thus it will be easier to put emphasis on individual assets and liabilities.

**Fixed Assets:** Fixed Assets are those which are used in the business for long time. Such as, goodwill, land, buildings, machinery, furniture etc.

**Current Assets:** Current assets are those assets which can be converted into cash within one accounting period e.g. cash & bank balance, debtors, stock of goods etc.

**Long Term Liabilities:** Liabilities which are taken for a long period of time is called long term liabilities e.g. Bank loan, mortgage loan, debenture etc.

**Current Liabilities:** Liabilities which are payable within one accounting period is called current liabilities e.g. creditors, outstanding expenses, advance income or unearned revenue, bank overdraft etc.

**Performance of statement of financial position**

**Name of the trading firm——**

**Statement of Financial Position**

**As on ————— Date —————**

<b>Assets</b>	<b>Taka</b>	<b>Taka</b>	<b>Taka</b>
<b>Fixed Assets:</b>			
Goodwill less written off		****	
Furniture less accumulated depreciation		****	
Office equipment less accumulated depreciation		****	
Machinery less accumulated depreciation		****	
Land & buildings less accumulated depreciation		****	
<b>Total Fixed assets</b>			****
<b>Long term investment:</b>			
Investment			****
<b>Current Assets:</b>			
Cash in hand & cash at bank		****	
Debtors	****		
Less: Closing bad debts & doubtful debts	***		
Bills Receivables		****	
Unused Stationery		****	
Income receivables		****	
Expenses made in advance		****	
Closing Stock		****	
<b>Total Current assets</b>			****
<b>Fictitious assets:</b>			
Preliminary Expenses		****	
Deferred Advertisement		****	
<b>Total Assets</b>			****
<b>Owner's Equity &amp; Liabilities:</b>			****
Equity (closing balance)			****
<b>Long term liabilities:</b>			
Bank loan/ Mortgage Loan	****		
Debenture	****		
<b>Current liabilities:</b>		****	
Creditors	****		
Bills payable	****		
Outstanding expenses	****		
Advance income/unearned revenue	****		
Bank overdraft	****		
<b>Total current liabilities</b>		****	
<b>Total liabilities</b>			****
<b>Owner's Equity &amp; Total Liabilities</b>			****

**Application of accounting principles in preparation of statement of financial position:**

In preparation of the Statement of Comprehensive Income and the Statement of Financial Position certain accounting principles are followed. In order to ascertain accurate profit or loss and to determine the accurate value of assets and liabilities following principles must be followed.

**1. Business entity concept:** Under this concept the business is said to be quite distinct from its proprietors. Only for this reason all accounts are kept in the name of the business are not in the name of the proprietors. That is why, capital supplied by the proprietor is the liability of the business and drawings by the proprietor are his own expense and reduce the value of capital.

**2. Going concern concept:** Under this concept, it is taken into consideration that the business will continue for an indefinite period of time and is not organized for a limited period. That is, a business will run for unlimited period and there is no plan to stop business. In the light of this concept, the incomes and expenses are divided into capital and revenue nature. Capital items are used to prepare the Statement of Financial Position. According to this concept, depreciation is calculated over the life span of fixed assets. If this concept does not exist it is not possible to prepare financial position and no need of charging depreciation.

**3. Periodicity concept:** According to going concern concept there is no specific period of business. But we can't wait for unlimited period to know the financial position of business. For that reason, to know the financial condition of each year we have to prepare comprehensive income statement and statement of financial position. Unlimited period of business can be divided into equal small parts. This small part is called periodicity. Generally periodicity indicates for one year.

**4. Accrual concept:** According to this concept, at the time of preparing Statement of Comprehensive Income, outstanding references are added to the related expenses which have been paid and outstanding incomes are added to related incomes which are already received during the concerned accounting year. Over and above, unearned incomes and prepaid expenses are shown as deduction from respective account head.

**5. Conservatism principle:** According to this principle, to calculate profit you have to be conservative, that is anticipating no profit but providing for all possible losses. It means provision should be created if there is any possibility of loss in future, but anticipated profit should not be taken into consideration unless and until it is realized. If profit or dividend is distributed from anticipation, then it is as if the break down of capital of the business which is not only ultra vires to the company act but also harmful for the concern. As per conservatism provision for bad and doubtful debt is considered as expense. And closing stock is valued at cost or market price whichever is lower.

**6. Cost price principle:** Under this principle, fixed assets are shown in the financial statement based on their historical cost that is at the price when they were purchased. Fixed assets are not shown at the current market price because they are not purchased for trading rather for long term use in business. Cost price means amount sacrificed for acquiring respective asset and other necessary expenses made to make the asset usable for the business.

**7. Consistency principle:** According to this principle, books of accounts are prepared and maintained following the same methodology each and every year. This is because of comparison and analysis between the years and inter-organization. Otherwise, true financial picture can not be gained.

**8. Materiality convention:** Under this convention, recording of transactions is done through using knowledge, experience and intelligence of the accountant. Accountant himself considers the relevant & irrelevant at the time of recording the transaction. For example, clock, staple machine, punch machine, calculators etc. are bought to use long span of time in business but since they are lower in price and the value of these assets are comparatively lower. At the end of accounting period these items are going to be recorded in specific year's expense account not in assets though it has been written as assets in the primary book of accounts.

**Adjustments to be considered at the time of preparing statement of financial Position:**

### **1. Adjustments of closing stock of goods:**

Value of closing stock of goods is calculated at the end of accounting period of a business organisation. Adjusting entry for this is as follows:

Closing stock of goods	Debit
Purchase return account	Debit
Cost of goods sold	Debit
Opening stock of goods	Credit
Purchase account	Credit
Carriage inward account	Credit

It is noticeable that through the above adjusting entry Cost of goods sold account & Closing stock of goods account are created, which is required to prepare financial reports.

### **2. Outstanding Expenses:**

After preparation of trial balance it will be found that wages are due Tk. 500. Then according to the accrual concept Tk. 500 will be at Statement of Comprehensive Income because this expense is relating to current accounting period. The same amount will be shown in the Statement of Financial Position as current liability. Adjusting entry for this is as follows:

Wages A/c	Debit
Wages due A/c	Credit

### **3. Expenses paid in Advance/Prepaid Expenses:**

At the end of the year it is found that house rent for Tk. 800 paid in advance. According to periodicity concept this prepaid rent will be deducted from the total house rent and shown in the Statement of Comprehensive Income because this expense is not relating to current accounting period. The same amount will be shown in the Statement of Financial Position on current assets. Adjusting entry for this is as follows:

Prepaid house rent A/c	Debit
House rent A/c	Credit

**4. Accrued Income:**

At the end of the year, it is found that interest on investment of Tk. 600 has been earned but not yet received. According to periodicity concept Tk. 600 will be shown in the Statement of Comprehensive Income as income. The interest receivable will be shown in the Statement of Financial Position as current asset. Adjusting entry for this is as follows:

Interest receivable on investment A/c	Debit
Interest on investment A/c	Credit

**5. Income Received in Advance/Unearned Income:**

Suppose, in the trial balance of current accounting period, rent received has been shown as tk.10,000. Out of this amount tk.3,000 received in advance for next year. This prepaid rent of tk.3,000 will be deducted from the rent received tk.10,000, actual rent received for this year tk.7,000 will be shown in the Statement of Comprehensive Income and tk.3,000 will be shown in the Statement of Financial Position as current liabilities. Adjusting entry for this is as follows:

House rent revenue A/c	Debit
Advance house rent revenue A/c	Credit

**6. Depreciation:**

Depreciation is the reduction of value of an asset i. e. buildings, machineries etc. owing to its use or other causes. Such reduction or loss known as depreciation and it will be shown as operating expenses in the Statement of Comprehensive Income. For example Plant and machinery is shown in the trial balance at Tk. 80,000. Depreciation on plant and machinery is to be charged @ 15% p.a. Here depreciation will be  $(80,000 \times 15\%) = \text{Tk. } 12,000$  will be shown as operating expenses in the Statement of Comprehensive Income. The same amount will be deducted from plant and machinery as accumulated depreciation in the Statement of Financial Position. Adjusting entry for this is as follows:

Depreciation expense A/c	Debit
Accumulated depreciation A/c	Credit

**7) Bad debts & Provision for doubtful debts:**

Generally Goods sold & service provided in business on credit. So that debtors account is found at the end of financial accounting period. Generally all debtors are not capable of paying their debts. A part of debtors is kept under bad debts &



provision for doubtful debts account to determine correct profit of a business organisation at the end of accounting period. When any debtor failed to pay their debts, then it's identified as bad debt. Different writers have recorded bad debts directly subtracting from debtors. But in this Testbook the procedure of recording bad debts through Provision Method is shown with illustration.

With the following illustration recording of bad debts written off & bad debts provision explained: Let's guess, In trial balance- Debtors tk.50,000, opening balance of bad debts & provision for bad debts tk.2000. One of the debtors failed to pay his debt tk.1,000 due to financial incapability. Proper Adjusting Entry & effect on Related Accounts are shown for this.

**Adjusting entry for this is as follows:**

- |   |        |          |
|---|--------|----------|
| 1) Bad debts & provision for doubtful debts account                   | Debit  | tk.1,000 |
| Debtors account   | Credit | tk.1,000 |
| (Bad debts tk.1,000 written off)                                      |        |          |
| 2) Bad debts expenses $(50,000 - 1,000) \times 5\% - (2,000 - 1,000)$ | Debit  | tk.1,450 |
| Bad debts & provision for doubtful debts account                      | Credit | tk.1,450 |
- (Bad debts & provision for doubtful debts charged on Debtors A/c)

**Effect of Bad debts & Provision for doubtful debts in related accounts:**

**Debtors Account**

Balance B/D	50,000	Bad debts & provision for doubtful debts account	1,000
		Balance C/D	49,000
	<u>50,000</u>		<u>50,000</u>

**Bad debts & Provision for doubtful debts Account**

Debtors	1,000	Balance B/D	2,000
Balance B/D	2,450	Bad debts expense	1,450
	<u>3,450</u>		<u>3,450</u>

**Bad debts expense Account**

Bad debts & Provision for doubtful debts account	1,450		
--	-------	--	--

Bad debts & Provision for doubtful debts are shown in Comprehensive Income Statement & Statement of Financial Position

**In Comprehensive Income Statement:**

Closing bad debts & provision for doubtful debts account $((50,000-1,000) \times 5\%)$	2,450
Less: Opening balance bad debts & provision for doubtful debts account	2,000
(-) Bad debts written off	<u>1,000</u>
	<u>1,000</u>
	<u>1,450</u>

**In Statement of Financial Position:**

Debtors	50,000
Less: Bad debts written off	<u>(1,000)</u>
	49,000
Less: Closing bad debts & provision for doubtful debts	<u>(2,450)</u>
	<u>46,550</u>

**Activity:** Opening balance of provision or bad debt Tk. 4,000 in the year 2017. At the end of the year debtors for Tk. 60,000. Suppose that, in current year 10% of debtors may not to be collectable. How much loss to be shown in comprehensive income statement and how much net for reserve debt to be shown in statement of financial position

For the benefit of students some Financial Statements are given below

**Illustration: 1**

Prepare Comprehensive Income Statement, Statement of Changes in Equity and Statement of Financial Position from the Trial balance & other information of 'Akoo & Associates' of Chartered Accountant Mr. A.R. Akon

**Akoo & Associates**

**Trial Balance**

**31 December 2017**

S. No.	Name of Accounts	L/P	Debit Taka	Credit Taka
1.	Capital			3,30,000
2.	Office Equipment		2,20,000	
3.	Service books		1,21,000	
4.	Audit fees			8,70,500
5.	Office rent		2,70,000	
6.	Electric & Telephone Expense		38,500	

7.	Cash in hand	30,400	
8.	Investment (Share)	2,00,000	
9.	Dividend received		42,500
10.	Advance Audit fees		60,000
11.	Conveyance Expense	3,600	
12.	Insurance Expense	6,500	
13.	Salary & Allowance	65,000	
14.	Bank deposit	3,00,000	
15.	Drawings	48,000	
		<u>13,03,000</u>	<u>13,03,000</u>

- (1) Audit of Accounts is completed of an organisation, which bill tk.55,000 not yet realised.  
 (2) Office rent due for three months.  
 (3) Charge depreciation 10% on office equipment.

**Akon & Associates**  
**Comprehensive Income Statement**  
**for the year ended 31 December 2017**

Name of Account	Taka	Taka	Taka
<b>Income:</b>			
Audit fees	8,70,500		
Add: Audit fees receivable	55,000		
		9,25,500	
Dividend received		42,500	
Total Income			9,68,000
<b>Less: Expenses</b>			
Office rent	2,70,000		
Add: rent due	90,000		
		3,60,000	

Electricity & Telephone Expense	38,500	
Conveyance Expense	3,600	
Insurance Expense	6,500	
Salary & Allowance	65,000	
Depreciation on Office Equipment	22,000	
		4,95,600
Net Profit		4,72,400

**Akon & Associates**  
**Statment of Changes in Equity**  
**as on 31 December 2017**

	Taka	Taka
Capital	3,30,000	
Add: Net profit	4,72,400	
		8,02,400
Less: Drawings		(48,000)
Owner's Equity or Closing Capital		7,54,400

**Akon & Associates**  
**Statment of Financial Position**  
**for the year ended 31 December 2017**

	Taka	Taka	Taka
<b>Fixed Assets:</b>			
Office Equipment	2,20,000		
Less: Accumulated Depreciation	(22,000)		
		1,98,000	
Service book		1,21,000	
Total fixed Assets			3,19,000
<b>Long term Investment:</b>			
Investment (Share)			2,00,000

<b>Current Assets:</b>			
Audit fees receivable		55,000	
Bank balance		3,00,000	
Cash in hand		30,400	
		<hr/>	
Total Current Assets			3,85,400
Total Assets			<u>9,04,400</u>
<b>Owner's Equity &amp; Liabilities:</b>			
Owner's Equity (31/12/2017)			7,54,400
Current Liabilities:			
Advance Audit Fees		60,000	
Office rent due		90,000	
		<hr/>	
			1,50,000
Owner's Equity & Total Liabilities			<u>9,04,400</u>

**Illustration: 2**

Accountant of Arthi & Sons has prepared the following Trial Balance.

Trial Balance  
31 December 2017

	Debit Taka	Credit Taka
Purchase & Sales	1,47,000	2,90,000
Goods return	4,000	3,000
Salary	20,000	
Carriage inward	2,000	
Carriage outward	800	
Insurance premium	5,000	
Advertisement expense	2,500	
Cash at Bank	15,000	
Capital		5,00,000
Debtors	7,000	
Creditors		10,000
Machinery	2,80,000	
Land	4,73,200	
10% Loan (Payable at 2020)		1,00,000
Accumulated depreciation		56,000
Provision for bad debt		500
Stock (01 December 2017)	3,000	
	<u>9,59,500</u>	<u>9,59,500</u>

**Adjustments:**

- i. Closing stock: cost price 5,000 Taka, market value 4,000 Taka;
- ii. Depreciate 10% on Machinery;
- iii. Salaries are due 6,000 Taka;
- iv. Prepaid insurance premium are 2,500 Taka;
- v. Charge provision for bad debt 10%;
- vi. Interest on loan is due.

You are required to prepare Comprehensive Income Statement, Statement of Changes in Equity of Arthi & Sons for year ended 31 December 2017 and Statement of Financial Position as on that date.

**Solution:**

**Arthi & Sons**  
**Comprehensive Income Statement**  
**for the year ended 31 December 2017**

	Taka	Taka	Taka
Net sales:			
Gross Sales		2,90,000	
(-) Return		<u>4,000</u>	
<b>Less: Cost of goods sold</b>			2,86,000
Opening stock		3,000	
Purchase	1,47,000		
(-) Return	<u>(3,000)</u>		
	1,44,000		
(+) Carriage inward	<u>2,000</u>		
		<u>1,46,000</u>	
		1,49,000	
(-) Closing stock		<u>(4,000)</u>	
			<u>1,45,000</u>
<b>Gross profit</b>			1,41,000
<b>Less: Operating cost</b>			
Salary	20,000		
(+) Due	<u>6,000</u>	26,000	
Carriage outward		800	
Advertisement expense		2,500	
Insurance expense	5,000		
(-) Prepaid	<u>(2,500)</u>		
Depreciation (2,80,000 × 10%)		2,800	
Closing bad debts & provision for doubtful debts (7,000 × 10%)	700		
Less: Opening bad debts & provision for doubtful debts	<u>(500)</u>		
		<u>200</u>	
<b>Operating profit</b>			<u>(60,000)</u>
			81,000

<b>Less: Other expenses</b>			
Interest on loan ( $1,00,000 \times 10\%$ )			(10,000)
<b>Net profit</b>			<u>71,000</u>

**Arthi & Sons**

Statement of changes in equity  
For the year ended 31 December 2017

	Taka	Taka
Capital	5,00,000	
Add: Net profit	<u>71,000</u>	
<b>Equity (31/12/2017)</b>		<b>5,71,000</b>

**Arthi & Sons**

Statement of Financial position  
as on 31 December 2017

	Taka	Taka	Taka
<b>Fixed assets:</b>			
Machinery	2,80,000		
Less: Accumulated depreciation	<u>84,000</u>	1,96,000	
Land		<u>4,73,200</u>	
<b>Total fixed assets</b>			<b>6,69,200</b>
<b>Current Asset :</b>			
Cash and Bank		15,000	
Debtors	7,000		
Less: Closing bad debts & provision for doubtful debts	<u>700</u>		
		6,300	
Prepaid Insurance		2,500	
Closing stock		<u>4,000</u>	
<b>Total Current Asset</b>			<u>27,800</u>
<b>Total assets</b>			<b>6,97,000</b>
<b>Owner's Equity &amp; Liabilities:</b>			
<b>Owner's Equity (31/12/2017)</b>			<b>5,71,000</b>
<b>Long-term liabilities:</b>			
Loan (Payable at 2020)		1,00,000	
<b>Short term liabilities:</b>			
Creditors	10,000		
Interest due on Loan	10,000		
Salaries due	<u>6,000</u>		
<b>Total current liabilities</b>		<u>26,000</u>	
<b>Total liabilities</b>			<u>1,26,000</u>
<b>Owner's Equity &amp; Total Liabilities</b>			<b>6,97,000</b>

**Illustration: 3**

From the following information you are required to prepare Comprehensive Income Statement & Statement of Changes in Equity for the year ended 31 December 2017 and Statement of Financial Position for that date of Arpon Traders

Arpon Traders  
Trial Balance

31 December 2017

Name of the accounts	Debit Taka	Credit Taka
Opening stock	30,000	
Purchase and Sales	76,000	1,57,000
Dock Charge	10,000	
Carriage inward	5,000	
Carriage outward	8,000	
Commission received		500
Salaries	24,000	
Advertisement	10,000	
10% Investment	20,000	
Cash in Hand	3,600	
Debtors and Creditors	30,000	19,500
Import Duty	7,000	
Stationery	3,000	
Office expense	6,000	
Electricity expense	5,000	
Drawings and Capital	40,000	1,70,000
Sales return & Purchase return	7,000	6,000
Bank overdraft		30,000
Sales commission	8,000	
Discount allowed & discount received	1,000	800
Furniture	20,000	
Machinery	70,000	
Interest on Investment		800
Interest on Bank overdraft	1,000	
<b>Total</b>	<b><u>3,84,600</u></b>	<b><u>3,84,600</u></b>

**Adjustments:**

- i. Closing stock (31/12/2017) tk. 40,000.
- ii. Office expense are due tk.1,000.
- iii. Unused stationery tk.500.
- iv. Prepaid salary tk.4,000.



**Solution:**

**Arpon Traders**  
**Comprehensive Income statement**  
**for the year ended 31 December 2017**

	Taka	Taka	Taka
Sales		15,7000	
(-) Return		<u>(2,000)</u>	
<b>Less: Cost of goods sold</b>			1,50,000
Opening Stock		30,000	
Purchase	76,000		
(-) Return	<u>(6,000)</u>		
		70,000	
Carriage inward		5,000	
Import Duty		10,000	
Dock Charge		<u>7,000</u>	
		1,22,000	
(-) Closing stock		<u>(40,000)</u>	(82,000)
<b>Gross profit</b>			<b>68,000</b>
<b>Less: Operating Cost</b>			
Return outward		8,000	
Salaries	24,000		
(-) Prepaid Salaries	<u>(4,000)</u>	20,000	
Advertisement		10,000	
Stationery	3,000		
(-) Unused Stationery	<u>(300)</u>	2,500	
Office expense	6,000		
(+) Due	<u>1,000</u>	7,000	
		5,000	
Electricity expense		8,000	
Sales commission		<u>1,000</u>	
			(61,500)
<b>Operating profit</b>			<b>6,500</b>
<b>Add: Other incomes</b>			
Interest on investment	800		
(+) Due	<u>1,200</u>	2,000	
Discount received		800	
Commission received		<u>300</u>	
			3,300
<b>Less: Other expenses</b>			9,800
Interest on bank overdraft			<u>(1,000)</u>
<b>Net profit</b>			<b>8,000</b>

**Arpon Traders**  
**Statement of changes in equity**  
**for the year ended 31 December 2017**

	Taka	Taka
Capital (1/1/2017)	1,70,000	
(+) Net profit	<u>8,800</u>	
		1,78,800
(-) Drawings		<u>(40,000)</u>
<b>Equity (31/12/2017)</b>		<b>1,38,800</b>

**Arpon Traders**  
**Statement of Financial position**  
**as on 31 December 2017**

Asset	Taka	Taka
<b>Fixed Assets :</b>		
Furniture	20,000	
Machinery	<u>70,000</u>	
<b>Total fixed assets</b>		90,000
<b>Investment :</b>		
10% Investment		20,000
<b>Current Asset :</b>		
Cash in hand	3,600	
Debtor	30,000	
Unused stationery	500	
Prepaid Salary	4,000	
Accrued interest on Investment	1,200	
Closing stock	<u>40,000</u>	
<b>Total Current Asset</b>		<u>79,300</u>
<b>Total Assets</b>		<b><u>1,89,300</u></b>
<b>Owner's Equity &amp; Liabilities:</b>		
<b>Equity (31/12/2017)</b>		1,38,800
<b>Current Liabilities:</b>		
Creditors	19,500	
Bank overdraft	30,000	
Office expenditure due	<u>1,000</u>	
<b>Total current liabilities</b>		50,500
<b>Owner's Equity &amp; Total Liabilities</b>		<b><u>1,89,300</u></b>

**Illustration: 4**

From the following information you are required to prepare Comprehensive Income Statement & Statement of Changes in Equity for the year ended 31 December 2017 and Statement of Financial Position for that date of Showkat Traders

**Trial Balance**  
31 March 2017

Account name	Debit Taka	Credit Taka
Cash in hand	8,200	
Cash at Bank	11,000	
Bills receivable and Bills payable	3,500	2,000
Capital		1,00,000
Opening stock	11,000	
Purchase and Sales	35,000	58,000
Sales returns and purchase returns	3,000	2,000
Debtors	22,000	
Creditors		20,000
Profit on sale of furniture		1,000
Advertisement	7,000	
Salaries	10,000	
Carriage	1,000	
Entertainment expenses	2,000	
Provision for bad debt & provision for doubtful debts		1,500
Commission paid and commission received	300	500
Lease property (5 years)	30,000	
Furniture	4,000	
Office equipment	5,000	
Drawings	32,000	
	1,85,000	1,85,000

**Adjustment:**

- i. Closing stock tk. 20,000 ;
- ii. Salary of two months are due;
- iii. Tk. 1,000 out debtors are not collectable;
- iv. Half of advertisement is to be deferred ;
- v. Depreciate on Furniture and Office equipment @ 5%.

**Solution:**

**Showkat traders**  
**Comprehensive Income statement**  
**for the year ended 31 December 2017**

	Taka	Taka	Taka
Sales		58,000	
(-) Sales returns		<u>(3,000)</u>	
			55,000
<b>Less : Cost of goods sold</b>			
Opening stock		11,000	
Purchase	35,000		
(-) purchase returns	<u>(2,000)</u>		
		33,000	
(+) Carriage		1,000	
		43,000	
(-) Closing stock		<u>(20,000)</u>	
			(25,000)
<b>Gross profit</b>			30,000
<b>Less : Operating expenses</b>			
Advertisement	7,000		
(-) Deferred ( $\frac{1}{2}$ )	<u>(3,500)</u>		
		3,500	
Salary	10,000		
(+) due	<u>2,000</u>		
		12,000	
Entertainment expenses		2,000	
Unrecorded Bad debts	1,000		
Less: Opening bad debts & provision for doubtful debts	<u>(1,500)</u>		
		(500)	
Commission paid		300	
Written off Lease property ( $\frac{1}{2}$ )		6,000	
Depreciation- Furniture	200		
Depreciation- Office equipment	<u>250</u>		
		450	
			(23,750)
<b>Operating profit</b>			6,250
<b>Add: Other income</b>			
Profit on sale of furniture		1,000	
Commission received		<u>500</u>	
			1,500
<b>Net profit</b>			<u>7,750</u>

**Showkat Traders**  
**Statement of Changes in Equity**  
**for the year ended 31 March 2017**

	Taka	Taka
Capital (1.4.2016)	1,00,000	
(+) Net profit	<u>7,750</u>	
		1,07,750
(-) Drawings		<u>(32,000)</u>
<b>Equity (31/03/2017)</b>		<b>75,750</b>

**Showkat Traders**  
**Statement of Financial Position**  
**as on 31 December 2017**

Asset	Taka	Taka	Taka
<b>Fixed asset :</b>			
Lease	30,000		
(-) Written off	<u>(6,000)</u>	24,000	
Furniture	4,000		
(-) Accumulated depreciation	<u>(200)</u>	3,800	
Office equipment	5,000		
(-) Accumulated depreciation	<u>(250)</u>	<u>4,750</u>	
<b>Total Fixed asset</b>			32,550
<b>Current Asset :</b>			
Cash in hand		8,200	
Cash at Bank		11,000	
Bills receivable		3,500	
Debtors	22,000		
(-) Unrecorded Bad debts	<u>(1,000)</u>	21,000	
Closing stock		<u>20,000</u>	
<b>Total Current Asset</b>			63,700
<b>Fictitious Asset :</b>			
Deferred advertisement			<u>3,500</u>
<b>Total asset</b>			<u><b>99,750</b></u>
<b>Owner's Equity &amp; Liabilities:</b>			
<b>Equity (31/03/2017)</b>			75,750
<b>Current Liabilities:</b>			
Bills payable :		2,000	
Creditors		20,000	
Accrued salary		<u>2,000</u>	
<b>Total Current Liabilities</b>			<u>24,000</u>
<b>Owner's Equity &amp; Total Liabilities</b>			<u><b>99,750</b></u>

**Illustration: 5**

From the following information you are required to prepare Comprehensive Income Statement & Statement of Changes in Equity for the year ended 31 December and Statement of Financial Position as on 31 December 2017 of Farhana Enterprise.

**Trial Balance**  
**30 June 2017**

Title	Debit Taka	Credit Taka
Debtors and Creditors	20,000	37,000
Building	70,000	
General reserve		10,000
Cash in hand	18,600	
Capital		1,00,000
Drawings	35,000	
Opening Stock	30,000	
Purchase and Sales	84,000	1,54,000
Repair to Building	2,600	
Freight	4,000	
Import Duty	1,000	
Dock charge	1,700	
Salary and wages	18,000	
General expenses	5,000	
Bank overdraft		3,000
Insurance premium	1,500	
Legal charge & Provision for doubtful debts	3,000	2,500
Advertisement	5,500	
Sundry loss	3,600	
Interest on Bank O/D	10,000	
Discount received		4,000
Travelling expenses	3,000	
House rent received		11,000
Income tax	5,000	
	<b>3,21,500</b>	<b>3,21,500</b>

**Adjustments:**

- i. Goods drawings for personal uses 1,000 Taka were not recorded.
- ii. Unrecorded Return inward and Return outward 4,000 and 2,000 Taka respectively.
- iii. Insurance premium have paid up to 30 September 2017 (For one year).
- iv. Unused stationery 1,000 Taka and sublet for one month is due.
- v. Write off 2,000 Taka as bad debt and charge 10% provision for bad debt & doubtful debts on remaining debtors
- vi. Closing stock 40,000 Taka.

**Solution:**

**Farhana Enterprise**  
**Comprehensive Income Statement**  
**for the year ended 31 March 2017**

	Taka	Taka	Taka
Sales		1,54,000	
(-) Return inward		(4,000)	
<b>Less: Cost of goods sold</b>			1,50,000
Opening Stock		30,000	
Purchase	84,000		
(-) Goods Drawings	(1,000)		
	83,000		
(-) Return outward	(2,000)		
		81,000	
Freight		4,000	
Import duty		1,000	
Dock charge		1,700	
		1,17,700	
(-) Closing stock		(40,000)	
			(77,700)
<b>Gross profit</b>			72,300
<b>Less: Operating Cost</b>			
Repair to Building		2,600	
Salary and Wages		18,000	
General expenses	5,000		
(-) unused stationery	(1,000)		
		4,000	
Insurance premium	1,500		
(-) Prepaid	(375)		
		1,125	
Legal charge		3,000	
Closing bad debt & provision for doubtful debts	1,400		
<b>Less: Surplus of bad debt &amp; provision for doubtful debts</b>	<b>(500)</b>		
(Op.balances & 2,500-bad debt written off)		900	
Advertisement		5,500	
Travelling expenses		3,000	
			(38,125)
<b>Operating profit</b>			34,175

<b>Other Incomes:</b>			
Discount received		4,000	
House rent received	11,000		
(+) Receivable	<u>1,000</u>		
		<u>12,000</u>	
			<u>16,000</u>
<b>Other Expenses:</b>			<u>50,175</u>
Sundry Loss		3,600	
Interest Bank Overdraft		<u>10,000</u>	
			<u>(13,600)</u>
<b>Net profit</b>			<u>36,575</u>

**Farhana Enterprise**  
**Statement of Changes in Equity**  
**for the year ended 31 March 2017**

	Taka	Taka
Opening Capital	1,00,000	
(+) Net profit	<u>36,575</u>	
		1,36,575
(-) Drawings :		
Cash	35,000	
Goods	<u>1,000</u>	
		<u>(36,000)</u>
(-) Income tax		<u>(5,000)</u>
		95,575
(+) General reserve		<u>10,000</u>
<b>Owner's equity (31/03/2017)</b>		<u><b>1,05,575</b></u>

**Farhana Enterprise**  
**Statement of Financial Position**  
**as on 31 March 2017**

Assets	Taka	Taka	Taka
<b><u>Fixed Asset :</u></b>			
Building		<u>70,000</u>	
<b>Total fixed Asset</b>			70,000
<b><u>Current Asset :</u></b>			
Cash in hand		18,600	
Debtors	20,000		
(-) Unrecorded return inward	<u>(4,000)</u>		
	<u>16,000</u>		



(-) Unrecorded bad debt	(2,000)		
	14,000		
(-) Closing bad debt & provision for doubtful debts	(1,400)		
		12,600	
House rent receivable		1,000	
Prepaid Insurance premium		375	
Unused stationery		1,000	
Closing stock		<u>40,000</u>	
<b>Total Current Assets</b>			<b>73,575</b>
<b>Total Assets</b>			<b><u>1,43,575</u></b>
<b>Equity and Liabilities</b>			
Equity (31/03/2017)			1,05,575
<b>Current Liabilities:</b>			
Creditors	37,000		
(-) return outward	<u>(2,000)</u>		
		35,000	
Bank overdraft		<u>3,000</u>	
<b>Total Current Liabilities</b>			<b>38,000</b>
<b>Equity and Total Liabilities</b>			<b><u>1,43,575</u></b>

### Evaluation of financial condition of business:

From comprehensive Income statement and statement of financial position any one can know overall condition of business such as profit, loss, fixed assets, current assets, current liabilities, long term loan, capital etc. But this information is not sufficient. Because the most important item is not only to know profit or loss of a business but also to know how much profit has been earned against how much capital invested. Beside these, we have to know not only the amount of current asset and current liabilities but also to know how much current assets to current liabilities, which indicate the loan repayment capacity of a business through current assets. So, to know the financial condition of a business perfectly we have to compare each item of comprehensive Income statement and Financial statement to another item, we have to calculate percentage of each account to another account or ratio of each account to another account. From these percentage and ratio comparative evaluation of more than one year of a business is possible. Not only this, under these ratio it is possible to compare one business to another business. Some ratio analysis is given below:

### Profit ratio:

We can compare net profit to Sales and capital employed. That is, we can calculate percentage of net profit to sales and net income to capital employed. Increase of these ratios indicates good capacity of earning profit. Beside, this profit ratio of business is higher than another business indicates better capacity of earning profit.

$$1. \text{ Net profit ratio} = \frac{\text{Net profit}}{\text{Net sales}} \times 100$$

$$2. \text{ Net profit to capital employed ratio} = \frac{\text{Net profit}}{\text{Capital employed}} \times 100$$

Capital employed= Total assets-Current Liabilities

### Capacity of loan repayment:

We can know the loan repayment capacity of business from comparisons of current assets and current liabilities that is calculation of current assets and current liabilities ratio. For this reason we have to calculate following two ratios:

$$1. \text{ Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$2. \text{ Liquid ratio} = \frac{\text{Current Assets} - (\text{Stock of Goods} + \text{Prepaid expenses})}{\text{Current Liabilities}}$$

As prepaid expense & stock of goods are not possible to convert into cash quickly. These type of items are deducted from current assets when we are calculating liquid ratio standard value of current ratio is 2: 1 i.e against every 1 taka current liability business should keep 2 taka current assets, alternatively for liquid ratio business should keep 1 taka liquid asset against every 1 taka liquid liability. That's why standard value of liquid ratio is 1: 1.

### Illustration:

Following information's are collected from the books of Rani Enterprises and Sreelekha Enterprises of 2017:

	Rani Enterprises (Taka)	Sreelekha Enterprises(Taka)
Gross profit	10,000	15,000
Net profit	8,000	6,000
Sales	1,00,000	1,20,000
Capital	60,000	80,000
Current Asset	9,000	10,000
Current liabilities	5,000	6,000
Stock	1,000	1,200

Requirement:

- Calculate net profit ratio and net profit to capital employed ratio.
- Current ratio and liquid ratio of two businesses.
- Which is better business?

**Solution: a)**

Profit ratio	Rani Enterprises	Sreelekha Enterprises
1. Net profit ratio = $\frac{\text{Net profit}}{\text{Net sales}} \times 100$	$\frac{8,000}{1,00,000} \times 100 = 8\%$	$\frac{6,000}{1,20,000} \times 100 = 5\%$
2. Net profit to Capital employed ratio = $\frac{\text{Net profit}}{\text{Capital employed}} \times 100$	$\frac{8,000}{60,000} \times 100 = 13.3\%$	$\frac{6,000}{80,000} \times 100 = 7.5\%$

**b)**

Current liabilities repayment ratio	Rani Enterprises	Sreelekha Enterprises
1. Current ratio = $\frac{\text{Current Asset}}{\text{Current Liabilities}}$	$\frac{9,000}{5,000} = 1.8 : 1$	$\frac{10,000}{6,000} = 1.67 : 1$
2. Liquid ratio = $\frac{\text{Current Assets} - (\text{Stock of Goods} + \text{Prepaid expenses})}{\text{Current Liabilities}}$	$\frac{9,000 - 1,000}{5,000} = 1.6 : 1$	$\frac{10,000 - 1,200}{6,000} = 1.46 : 1$

- c) Financial condition of Rani Enterprise is better than Sreelekha Enterprise. Profit of Rani is 8% and 13.3% and Sreelekha is 5% and 7.5% Liquid or loan repayment capacity of Rani Enterprise is better than Sreelekha Enterprise. Slandered current ratio is 2: 1 that indicate sufficient cash will remain after loan repayment.

**Activity:** From the of following information you are required to calculate net profit ratio, return on capital employed ratio, current ratio and liquid ratio:

Gross profit	40,000	Capital employed	1,00,000
Net profit	18,000	Current Asset	35,000
Sales	1,20,000	Current liabilities	20,000
		Closing stock	5,000

## Exercise

### Multiple choice questions:

- What is the result of 1st step of comprehensive income statement?
  - Net Sales
  - Net Purchase
  - Gross Profit
  - Cost of Goods Sold
- Which one subtracted for calculating cost of goods sold?
  - Opening Stock of Goods
  - Closing Stock of Goods
  - Net Purchase
  - Net Sales
- Operating income
  - Sale of Furniture
  - Good Sold
  - Service Revenue
 Which one is correct?
  - i & ii
  - i & iii
  - ii & iii
  - i, ii & iii
- Which one is correct?
  - Profit changes capital.
  - Profit decreases capital.
  - Capital comes only from profit.
  - Profit increases capital.
- Gross profit is-
  - Cost of Goods Sold – Closing Stock
  - Net Sales – Cost of Goods Sold
  - Cost of Goods Sold + Opening Stock
  - Net profit – operating expenses

6. Includes in Other Income -

- i. Interest on investment
- ii. Sales
- iii. Discount received

Which one is correct?

- a) i & ii
- b) i & iii
- c) ii & iii
- d) i, ii & iii

7. If Sales 18,000 Taka, Stock 2,500 Taka, Purchase 1,700 Taka, Purchase 13,400 Taka Carriage inward 700 Taka then what will be cost of goods sold?

- a) 16,600 Taka
- b) 14,900 Taka
- c) 15,900 Taka
- d) 18,300 Taka

8. Depreciation means-

- a) Purchase price of fixed assets
- b) Sales price of old fixed assets
- c) Written down value of used fixed asset.
- d) Replacement value of old fixed asset.

9. Provision for doubtful debt is kept, when-

- a) Debtors become insolvent.
- b) Debtors are not found.
- c) Confirm that money will not collect from debtors.
- d) Possibility of non-collection of amount due to debtor.

10. If gross profit tk.70,000, operating expenses tk.85,000, other income tk.15,000 then net profit will be -

- a) 20,000 Taka
- b) 25,000 Taka
- c) 30,000 Taka
- d) 50,000 Taka

11. In spite of gross profit earned, what is the reason for net loss?

- a) Cost of goods sold increases
- b) Stock of goods increases
- c) Operating expenses increases
- d) Other income increases

12. Which one is operating expenses?

- a) Office expenses
- b) Drawings
- c) Sandry loss
- d) Interest on loan

13. Creditors show in which part of financial statement?

- a) Current Asset
- b) Current Liabilities
- c) Fixed assets
- d) Long term loan

14. In the book of Leena Traders, tk. 5,000 Debt balance under Mina & Sons. What does it mean for Leena Traders?
- a) Expense                                      b) Income  
c) Asset    d) Liability

15. Which one is the formula of liquid ratio?
- $$\frac{\text{Current Liabilities} - (\text{Stock} + \text{Prepaid expenses})}{\text{Current Assets}}$$
  - $$\frac{\text{Current Assets} + (\text{Stock of Goods} - \text{Prepaid expenses})}{\text{Current Liabilities}}$$
  - $$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$
  - $$\frac{\text{Current Assets} - (\text{Stock of Goods} + \text{Prepaid expenses})}{\text{Current Liabilities}}$$

### Creative questions:

1. Trial Balance & other necessary adjustment of 'Shotota Law Chamber', Dhaka on 31 December 2017 mentioned below:

Shotola Law Chamber  
Trial Balance  
31st December, 2017

Serial No.	Accounting Title	L.F.	Debit Taka	Credit Taka
1	Drawings & Capital		60,000	3,50,000
2	Prepaid camber rent		1,20,000	
3	Furniture & Equipment		80,000	
4	Service Revenue			4,75,000
5	Bank Balance		2,00,000	
6	Unearned Service Revenue			50,000
7	Law Books		40,000	
8	6% Investment (1-7-15)		2,50,000	
9	Accumulated Depreciation (Equipment)			16,000

10	Salary & Allowance		1,10,000	
11	Electric & Telephone Bill		24,000	
12	Convenience expenses		7,000	
	<b>Total</b>		<b><u>8,91,000</u></b>	<b><u>8,91,000</u></b>

**Adjustment:**

1) Cheque tk.40,000 received in advance for providing legal service from a Company, which is included in Service Revenue.

2) Salary & Allowance is due for 1 month.

3) Half of prepaid chamber rent expired.

4) Charge depreciation on furniture & equipment 10%.

a) Calculate current liabilities from above information.

b) Prepare comprehensive Income statement of Shototo Law Chamber.

c) Calculate Total amount of classified Assets in statement of financial position.

2. A few ledger balances and necessary adjustments of Rimjhim Enterprise as at 31 December 2017 are as follows:

Name of accounts	L. F.	Debit Taka	Credit Taka
Opening stock of goods		30,000	
Purchase and sales		2,90,000	4,20,000
Carriage Inward		6,000	
Returns		12,000	5,000
Discounts		7,000	10,000
Salaries (9 months)		54,000	
Import duty		5,000	
Stationery		4,000	
Advertisement		12,000	
Bills receivable		15,000	
<b>Total-</b>		<b><u>4,35,000</u></b>	<b><u>4,35,000</u></b>

**Adjustments:**

1) Purchase price of closing stock of goods is tk. 40,000 of which market price is tk. 2,000 more.

2) Opening stock of goods includes stationery worth tk. 500.

- 3) Goods distributed free of cost among the prospective buyers worth tk. 6,000 was not recorded.
- 4) Carriage expenses is due tk.3,000, on the other hand tk. 1,000 has been paid advance for duty.
  - a) Calculate the amount of net sales from the above informations.
  - b) Determine the cost of goods sold of Rimjhim Enterprise.
  - c) Considering gross profit tk.1,26,000 prepare the statement of comprehensive Income.
3. The trial balance and other information of Jafrin and Sons as at 30 June 2010/7 are as follows:

**Jafrin and Sons**  
**Trial Balance**  
**30 June 2017**

Name of accounts	L.F.	Debit Taka	Credit Taka
Purchase and Creditors		1,50,000	90,000
Debtors and Sales		73,000	1,27,000
Carriage outward and return outward		15,500	6,500
15% Bank overdraft (31-1-2017)			40,000
Capital			1,00,000
Prepaid rent		10,000	
Bank charge and Bad debt reserve		2,000	3,500
Cash discount		7,500	11,000
Lease-hold property (8 years)		1,20,000	
<b>Total</b>		<u><b>3,72,000</b></u>	<u><b>3,72,000</b></u>

**Other information:**

- 1) Value of unsold goods is tk. 63,000.
- 2) Prepaid rent worth tk.6,000 is expired.
- 3) Amount of bad debt for the year is tk. 3,000 and provision for bad debt is to be kept @5%.
  - a) Calculate the cost of goods sold from the above information.
  - b) Prepare the statement of comprehensive income of Jafrin and Sons, considering Gross profit tk. 47,000.
  - c) Prepare the statement of financial position considering the closing balance of owners equity tk. 1,06,500.



4. Trial balance and other information of Priority Enterprise as at 31 December 2017 are as follows:

Name of accounts	L.F.	Debit Taka	Credit Taka
Capital			1,48,000
Cost of goods sold		1,52,000	
Closing stock of goods		58,000	
Sales			3,25,000
10% Investment		1,20,000	
Salaries and honorarium		72,000	
Training allowances		18,800	
Commission		7,200	4,000
Discount received			11,000
Sundry credits			40,000
Total-		<u>5,28,000</u>	<u>5,28,000</u>

**Other information:**

- 1) Salaries and honorarium due for 4 months.
- 2) Charge 10% depreciation on furniture.
- 3) Commission receivable tk. 4,000 not yet recorded.

- a) Calculate gross profit or loss from the above information.
- b) Prepare the statement of comprehensive income considering the gross profit tk. 1,73,000.
- c) Prepare the statement of financial position considering the net profit of tk.60,000.

5. The trial balance and adjustment of Chondona Enterprise as at 31 December 2017 are as follows:

Serial No.	Name of accounts	L.F.	Debit Taka	Credit Taka
1	Stock of goods (1-1-2017)		40,000	
2	Purchase and Sales		1,90,000	3,50,000
3	Office expenses		65,000	
4	Carriage expenses		3,000	
5	Cash in hand		15,000	

6	Accounts Receivable and Accounts Payable	63,000	25,000
7	Provision for bad & doubtful debts		6,500
8	Discount received		700
9	Sundry loss	2,500	
10	Profit on sale of equipment		2,500
11	Bank charge	3,500	
12	Dock charge	1,200	
13	Postage and telegraph expenses	1,500	
	Total-	<u>3,34,000</u>	<u>3,34,000</u>

**Adjustment:**

- 1) Goods sold by cash tk. 15,000 was not recorded.
- 2) Write off tk. 2,500 as bad debt and 5% provision for doubtful debts is to be charged.
- 3) Tk. 5,000 was paid for legal expenses of the business, not yet recorded in the books
4. Unrecorded return inward tk. 2,000 and return outward tk. 1,000.
  - a) Determine the amount of closing cash from the above information.
  - b) Determine the Gross profit or loss by preparing comprehensive income statement.
  - c) Calculate Net profit or loss considering Gross profit tk. 1,34,800.
6. Shotodol Enterprise's earned Gross profit tk. 1,28,000 for the year ended 30 June 2017. Partial Trial balance & necessary adjustments on that date of business are as follows:

Serial No.	Accounting Title	L.F.	Debit Taka	Credit Taka
1	Drawings & Capital		10,000	2,80,000
2	Office Equipment		2,40,000	
3	Salary (6 months)		72,000	
4	Notes Receivable & Note Payable		25,000	26,000
5	House Rent Income			6,000
6	Accumulated Dep. (office equipment)			12,000
7	8% Investment (1/1/16)		1,00,000	
8	Commission		3,000	2,000

9	Interest on Investment			4,000
10	10% Mortgage Loan (1/2/17)			1,20,000
	Total		4,50,000	4,50,000

**Adjustments:**

- Cost price of closing stock of goods tk.1,28,000 but market price tk.20,000 higher.
- House rent received for 2 years.
- Charge depreciation 7.5% on office equipment.
- Commission receivable tk.2,000.
  - Calculate cost of goods sold considering Net sales tk.3,56,000.
  - Prepare comprehensive income statement for the year ended 30 June 2017 of Shotodol Enterprise.
  - Determine financial position at the closing date of accounting period considering Net Loss tk.27,000.
- Trial balance & other information on 31 December 2017 of Nishitha Traders are as follows:

Trial balance  
31 December 2017

Serial No.	Accounting Title	L.F.	Debit Taka	Credit Taka
1	Purchase & Sales		2,50,000	3,15,700
2	Carriage		15,000	
3	Salary & Allowance		30,000	
4	Rates & Taxes		14,500	
5	Commission		7,500	18,000
6	Stationary		4,000	
7	Port charge		12,000	
8	Lease rent & Dividend received		6,500	30,000
9	Discount paid & Discount received		7,000	12,800
10	Stock of goods (01/01/2017)		30,000	
	Total		3,76,500	3,76,500

**Other information:**

- Unsold goods valued tk.1,30,000 & in this amount, stock of stationary tk.2,500 included.

2. Sales tk.10,000 & purchase tk.5,000 on credit yet to record.  
 3. Tax due tk.1,500, on the contrary rates paid tk.500 in advance.  
 a) Calculate Net current assets from above information.  
 b) Calculate Gross profit or loss preparing comprehensive income statement.  
 c) Calculate Net profit considering Gross profit tk.1,25,000.
8. Trial balance & other information on 30 June 2017 of Shohabdi Bors. are as follows:

Trial balance  
30 June 2017

Serial No.	Accounting Title	L.F.	Debit Taka	Credit Taka
1	Drawings & Capital		2,000	2,20,000
2	Cash in hand		13,000	
3	Furniture		18,000	
4	Accounts Receivable		10,000	
5	Prepaid Insurance Premium		500	
6	12% Investment in Bond (01-01-2017)		2,00,000	
7	Bank overdraft			8,000
8	Additional Capital (01-01-2017)			20,000
9	Deferred Advertisement		4,000	
10	Income tax		1,500	
11	Salary due			7,800
12	General Reserve			23,200
13	Machinery		30,000	
	Total		2,79,000	2,79,000

Other information:

1. Closing stock of goods valued tk.30,500.  
 2. Owner's life insurance premium tk.5,000 paid from business, which is not recorded.  
 3. 2 notes of tk.1,000 were completely destroyed, which need to be recorded.  
 4. Interest accrued on Investment.  
 a) Calculate current liabilities from above information.  
 b) Prepare statement of changes in equity considering net profit tk.40,500.  
 c) Determine total assets at the last date of accounting period in statement of financial position.

9. Following is the information of Raman and Brothers for the year 2016 & 2017-

	2016	2017		2016	2017
Gross profit	16,000	15,500	Current Asset	8,500	11,000
Net profit	6,900	5,600	Current Liabilities	6,400	9,500
Sales	90,000	92,000	Stock	1,200	900
Invested Capital	50,000	75,000			

- What will be the operating cost of 2016 & 2017?
- Calculate the net profit ratio and Capital employed ratio of 2016.
- Explain short term loan repayment capacity for the year 2017.

10. Raihan Enterprise earned gross profit TK. 25,000 in the year of 2017 through whole sale business. His Trial Balance and other information's are as follows:

Sl. No.	Account name	L. F.	Debit Taka	Credit Taka
1	Bank overdraft			23,000
2	Purchase and Sales		22,000	60,000
3	Sales return & Purchase return		3,000	1,000
4	Debtors and Creditors		35,000	8,000
5	10% Investment (1-7-17)		20,000	
6	Fixed Assets		80,000	
7	Packing expenses		2,000	
8	Provision for bad debt & doubtful debt			4,000
9	Capital			1,00,000
10	Interest on Bank overdraft		5,000	
11	Opening Stock		23,000	
12	Cash in hand		6,000	
			<u>1,96,000</u>	<u>1,96,000</u>

**Other Informations:**

- Closing stock- cost tk.20,000 and market value tk.22,000.
- Two tk. 500 note was stolen from cash box.
- Goods Purchase on credit tk. 2,000 was not recorded in the books.
  - From the above information calculate liquid ratio of Raihan Enterprise.
  - Prepare comprehensive income statement of Raihan Enterprise
  - Prepare statement of financial position considering net profit tk. 29,000 .

11. Following is the Trial Balance of Suravi Traders as on 31 December 2017:

Sl. No.	Title	L.F.	Debit Taka	Credit Taka
1	Opening Stock		20,000	
2	Purchase & Sales		80,000	1,20,000
3	Return outward		3,000	
4	Return inward			4,000
5	Furniture		24,000	

6	Carriage inward		4,000	
7	Salary		12,000	
8	Rent		5,000	
9	Reserve Fund			30,000
10	Rates and Tax		6,000	
11	Drawings & Capital		10,000	80,000
12	Additional capital (1/7/17)			20,000
13	Machinery		90,000	
	<b>Total</b>		<u>2,54,000</u>	<u>2,54,000</u>

**Other Informations:**

- Closing stock tk.14,000.
- Owner personally paid tk. 12,000 to employee of business, not yet recorded.
- Depreciate 10% on Fixed assets
  - Calculate net value of fixed assets at the end of the year of Surovi Traders.
  - Determine net profit or loss of Surovi Traders.
  - Prepare owner's equity statement of Surovi Traders. (Considering Net Profit tk.35,000)

12. Following is the Trial Balance of Khadija & Co. as on 31 December 2017:

Serial	Account name	L.F	Debit Taka	Credit Taka
1	Opening Stock		15,000	
2	Purchase & sales		40,000	1,05,000
3	Salary		5,000	
4	Return		3,050	1,750
5	Insurance premium		750	
6	Postage & Telegram		1,300	
7	Carriage		2,500	
8	Advertisement		2,750	
9	Discount received			1,000
10	Provision for bad debt & doubtful debt			2,600
11	Sundry debtors		40,000	
	<b>Total</b>		<u>1,10,350</u>	<u>1,10,350</u>

**Adjustments:**

- Closing Stock 12,300 taka.
- Goods Purchase 2,000 taka is not recorded.
- Goods withdrawn by the owner 1,000 taka was not recorded in the books.
- Charge 4% provision for doubtful debt and 2% provision for discount on debtors.
- Advertisement was paid for 5 years.
  - How much amount of net purchase?
  - Calculate Gross profit on the basis of above information of Khadija and Co.
  - Prepare Comprehensive income statement considering gross profit tk.57,000.

## Eleventh Chapter

### Cost Price, Cost of Production and Selling Price

Determination of production cost and selling price is most important for the goods and commodities which are produced, purchased and sold for business purpose. If price is not properly determined, business will suffer loss and many other hazards. To survive in current competitive market situation, determining cost price at the time of production or purchase, also to determine selling price at the time of sales and overall, price is vital for maintaining interest of both purchaser and sellers.



Sales center of manufactured goods

At the end of this chapter we will be able to –

- Determine cost and selling price of a trading concern.
- Classify element of cost of productions.
- Prepare cost sheet and determine total cost price and total sales price.

**Determination of Cost Price & Selling Price:**

The prime objective of a business concern is to ascertain actual profit and loss. Determination of actual profit or loss will not be possible if the price of the goods purchased and their selling price are not properly determined. Cost price is determined by adding direct expenses incurred to the value of goods produced or purchased. Indirect expenses are added to them to make up total cost of the goods purchased and a certain percentage of profit is added to this total cost for determining selling price.

**Determination of Cost Price:**

In ordinary sense, cost price is that price which is paid at the time of purchasing goods or commodities. But in the real sense, cost price includes all the cost of carrying goods or commodities to the places where these are stored. Such carrying costs are known as direct expenses. For example carriage inward, import duties, dock charge, payment to porters etc. Illustrations are meant for example:

Samad & Sons of Gazipur purchased 5,000 litres of Soyabin oil from Chittagong at Tk. 120 per litre. He paid truck fare of Tk. 15,000, labour charges of Tk. 1,200, toll charge of Tk. 1,000. Tk. 1,500 paid for off-loading expenses to warehouse. In this case, the price of per litre oil will be-

Particulars	Taka	Taka
Purchase of Soyabin oil (5000 litre x Tk. 120)		6,00,000
(+) Direct Expenses :		
Truck fare	15,000	
Labour charge	1,200	
Toll charge	1,000	
Off-loading expenses	<u>1,500</u>	
		<u>18,700</u>
Total Cost price		6,18,700

Price per litre  $(6,18,700 \div 5,000) = \text{Tk. } 123.74$



Table of Purchase cost, cost of goods purchased and selling price are shown in below:

Name of the firm

For the year ended on ..... Dated .....

Particulars	Taka	Taka
Amount paid for the price of goods purchased		****
Add: Direct expenses:		
• Carriage	***	
• Dock charge	***	
• Duty	***	
		***
<b>Cost price</b>		****
Add: Indirect expenses:		
• Rent	***	
• Salary	***	
• Advertisement	***	
		***
<b>Total cost of goods purchased</b>		****
Add: desired profit		****
<b>Selling price</b>		****

#### Determination of Selling Price:

Selling price is that price which is determined by adding profit to the total cost of goods purchased or manufactured. For example, shop rent, staff salary, electricity, advertisement expense etc. are added to the cost of goods purchased to find out the total cost. Then selling price is determined by adding desired profit to the total cost. For example, total cost price of soya bin oil was of tk. 6, 18,700. To sell the oil they also paid as indirect expenses of tk. 10,500 staff salary tk.6,000; electricity bill tk.1,500; advertisement tk.2,000 and travelling expense tk.1000. If the oil is sold at a profit (desired) of 10% on the total cost, then the selling price will be-

Particulars	Taka	Taka
<b>Total Cost price</b>		6,18,700
<b>(+) Indirect Expenses :</b>		
Staff salary	6,000	
Electricity bill	1,500	
Advertisement	2,000	
Traveling expense	1,000	10,500
<b>Total Cost</b>		6,29,200
<b>(+) Desired Profit (6,29,200 x 10%)</b>		62,920
<b>Selling Price</b>		6,92,120
Selling price per liter oil (6,92,120÷5000) = Tk. 138.42		

Purchase cost, cost of goods purchased and selling price are shown below by an example:

**Example:**

Nasir Enterprise of Dhaka imported 1,000 bundles of Corrugated Iron Sheets from Vietnam at tk. 4,000 per bundle. Following expenses were paid to import 1,000 bundles of Corrugated Iron Sheets:

Import duty tk.15,000; freight tk.75,000; Shipping insurance tk.8,000; clearing charge tk.7,000; porter expenses tk.2,000; truck rent tk. 20,000. Besides, paid tk. 12,000 as Godown and shop rent and tk. 7,000 as employees' salary. He also paid tk. 10 as commission for the sale of each bundle corrugated sheet. The said businessman earns 15% of profit on total cost by selling the corrugated sheets.

**Solution:**

**Nasir Enterprise**  
**Statement of cost price and selling price**

Particulars	Taka	Taka
Purchase of Corrugated Sheets (1,000 bundles × tk. 4,000)		40,00,000
<b>(+) Direct Expenses</b>		
Import duty	15,000	
Freight	75,000	
Shipping Insurance	8,000	
Clearing charge	7,000	
Porter expenses	2,000	
Transportation	20,000	
		1,27,000
<b>Total cost price</b>		41,27,000
<b>(+) Indirect Expenses :</b>		
Godown and shop rent	12,000	
Staff salary	7,000	
Commission (Tk. 1,000X 10)	10,000	29,000
		<u>41,56,000</u>
<b>Total Cost</b>		41,56,000
<b>(+) Desired Profit (41,56,000 × 15%)</b>		6,23,400
<b>Selling Price</b>		<u>47,79,400</u>

Cost per bundle of corrugated sheet = (Tk. 41,56,000÷1000) = Tk. 4,156.

Per bundle selling price of corrugated sheet = (Tk. 47,79,400÷1000) = Tk. 4,779.40.

**Activity:** Hannan & Bros. of Khulna purchased 200 pieces of Pump Machine from Chittagong at tk. 5,000 each. Paid tk. 20,000 as carriage; tk. 2,000 as Transportation insurance; tk. 1,000 as duty and tk. 1,200 as dock charge. Besides, paid tk. 4,000 as warehouse rent; tk. 3,000 as shop rent; tk. 2,500 as staff salary and tk. 2,000 as electricity charge. Profit 20% on total cost.

Find out purchase cost, total cost and selling price.

## Cost and Elements of Cost



Picture: A garment Industry

### Meaning and significance of cost:

Generally, paying the expenses of all kinds for producing or purchasing of any product is called cost of production. The amount which is paid for acquiring any economic wealth is called cost. In short, the cost of any product is the sum total of all expenses incurred in producing or manufacturing it, so we can say that, the cost of any product is the sum of total expenses incurred at different levels of production in a factory right from the use of raw material up to finished product. For example, the sum total of expenses incurred for timber used in the production of furniture, coloring, burnishing, wages paid for labour, cost of using machinery and other expenses, can be called cost of furniture production. In the same way, the cost of sand, earth and clay, wages and the expenses for bricks baking in total can be considered as production cost of brick manufacturing.

Achieving expected profit through controlling of cost is one of the basic objectives of Cost Accounting. Cost of production plays a vital role in case of determination and control of cost, fixation of selling price, administrative control and managerial policy making of an industry. Determination of total cost

cost and per unit cost of goods produced in factories is of great importance. If we fail to determine the total cost and per unit cost of any goods and services, we can't determine their selling price. Selling price of any product is fixed only after correctly determining its cost of production.

The elements which are involved in determining total production cost, mean all types of direct and indirect expenses are kept and recorded properly. As a result, while we can keep track of the cost incurred with regard to different elements of cost, we can also know the various elements of expenditure, on the other hand, keep track of losses with regard to theft, wastage, misuse and abuse. Thus, it helps us to control and reduce total production cost.

**Activity: Why is determination of cost of production so important?**

**Objectives of determining cost of production:**

Determination of cost of production is the basic objective of cost accounting. Existence and success of a firm majorly depend on perfect determination of cost. Some vital objectives of costing are given below.

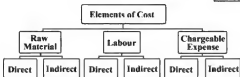
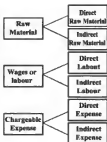
1. **Ascertaining profit or loss:** The prime objective of business is to get true financial picture through ascertaining correct profit or loss. Profit and loss ascertainment can easily be done through determination of cost.
2. **Valuation of stock:** Determination of cost is important to determine the actual value of stocks after an accounting period.
3. **Fixation of responsibility:** Comparison between predetermined and actual cost can not only find the discrepancy but also find out the reason behind such gap. By doing so, it can easily pinpoint the person who is responsible for this.
4. **Determination of selling price:** cost is necessary to determine the profitable selling price in a competitive market. Using cost as a strategy, firstly, per unit cost is determined. After that considering the demand for goods or services, strength of competitors, government policy, and profit policy the desired percentage of profit is added with cost of production.
5. **Budget preparation:** Budget is considered as the guide line of future action plan. Budget is prepared for every single unit of expenses of a firm. Since per unit cost is determined so total cost budget can easily be prepared.
6. **project appraisal:** Economic feasibility of a project is evaluated before the project is in actual operation. So determination of cost plays an important role in case of feasibility study.

**Working:** Which are the other objectives of cost of production?

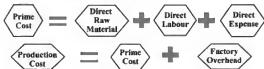
### Elements of cost:

Determination of total cost is not sufficient in case of producing goods or services. For the purpose of appropriate control and decision making, classification and analysis of elements of cost is badly needed. The various elements of cost which go to make up the total cost of any product may be divided into three main heads, Viz: - (a) Raw Materials, (b) Labour and (c) Chargeable expenses.

Each of these three elements is again divided into two classes i.e. direct and indirect.



Total cost can be determined by above mentioned cost elements. This total cost can also be analyzed through the table given below-





Elements of cost are discussed below.

### 1) Raw Material

**i) Direct Raw Material:** Materials which are primarily used for the production of any goods and which are considered to be inseparable parts of those goods are direct raw materials. Direct raw materials are included in case of determining prime cost. For example, paper for making book, wood for making furniture, yarn for the manufacturing of cloth, sugarcane for sugar.

**ii) Indirect Raw Material:** The materials other than direct raw materials which is used for production is called Indirect raw materials. That is, the materials which are not directly used for production is known as indirect raw materials. Yarn and button for making shirt, Glue for making shoe, and screw, wire, sand paper for making furniture are the examples of indirect raw material. Indirect raw materials are used as materials for production.

### 2) Labour/wages

**i) Direct Labor:** The workers who are directly related with production is called direct labor. The payment that is made to the workers for transforming raw materials into finished product and from working process to finished product is called direct labour or wages. For example, wages paid to the machine operators in factories, worker cost for making furniture, sewing cost for making dress.

**ii) Indirect Labour:** The workers who are not directly related to the production, but helps for production is called indirect labour. For example, helper's wages in ready made garments factories are indirect labour. These

labours help in production rather direct participation of production process actively. For spending indirect labour, total cost of production will not be increased.

### 3) Chargeable expenses:

i) **Direct expenses:** The expenses which are incurred neither for direct raw materials nor for direct labour but they are directly being charged to the production are called direct expenses. These expenses are also called chargeable expenses. For example-

- \* Expenses of architectural design for construction
- \* Engineering designing cost
- \* Special forms making cost for producing shoe
- \* Purchase of tender in case of contractual job, i.e. tender cost, travelling cost for tender, etc.

ii) **Indirect expenses:** The expenditure which incurred in the production process can not be identified separately is called indirect expenses. For example screw expenditure for making furniture, can not be identified separately. These expenditures treated as indirect expenditure. These expenditures incurred for overall management of the organization and helped various logistic supply regularly. Indirect expenses or Overhead can again be sub-divided into three categories:

a) **Factory Overhead:** All costs related to production other than direct materials and direct labour are called factory overhead. For example, Factory rent, insurance, Municipal taxes, Electricity and water supply etc.



b) **Administrative Overhead:** Expenses related to office and administration matters are called administrative overhead. It refers to all indirect expenses incurred in connection with overall administration and office management. For example, salary for office staff, office rent, other office expenses i.e. postage & telegram, telephone & electricity, printing & stationary, conveyance expense, & legal expense etc.

c) **Selling Overhead:** The sum total of indirect expenses incurred for the sale of finished goods is termed as selling and distributional overhead. All expenses in connection with order collection of produced goods, create new market,

possession old market, attract customers. For example, advertisement expenses, rent of showroom, carriage outward, salary & commission paid to sales manager or sales representative, all expenses related to selling office etc. Again, all expenses related to after sales servicing and repairing, changing the goods are also included in selling expenses.

**Activity:** Give three examples of each of the followings  
(a) Direct Raw Material and (b) Direct Labour.

### Cost Sheet:

Cost Sheet is a statement where elements of cost regarding to production are systematically arranged for specific time. Usually, manufacturing organization prepares cost sheet showing the expenses of elements of cost incurred in the process of production as a part of financial statement at the end of the accounting period. Cost sheet can be prepared for monthly, quarterly, half yearly, and yearly, depending on the nature of job of a particular organization. For the purpose of determining cost of production, cost of goods sold and profit, cost sheets can be prepared in three stages. A specimen form of cost sheet is given below:

Name of the Manufacturing firm  
Cost of Goods Manufactured Statement  
for the period of.....

Element of cost	Details Taka	Taka	Total Taka
Opening stock of raw materials		xxx	
Add: Raw material purchase	xxx		
Carriage inward	xxx		
	xxx		
Less: Return of purchased raw material	xxx	xxx	
Usable raw material		xxx	
Less: Closing stock of raw material		xxx	
<b>Raw material used</b>		xxx	
Add: Direct wages		xxx	
Other direct expenses		xxx	
<b>Prime cost</b>			xxx
Add: Factory overhead			xxx
<b>Production cost</b>			xxx
Add: Opening Work in process (Half finished)			xxx
Less: Closing Work in process (Half finished)			xxx
<b>Cost of goods manufactured</b>			xxx



Name of the organization.....

**Cost of Goods Sold Statement**

for the period.....

	Taka	Taka
Opening stock of finished goods		XXX
Add: Cost of goods produced		XXX
<b>Saleable goods</b>		XXX
Less: Closing stock of finished goods		XXX
<b>Cost of goods sold</b>		XXX

Name of the organization.....

**Comprehensive Income Statement**

for the period.....

	Taka	Taka
Sales	XXX	
Less: Return	XXX	
<b>Net sales</b>		XXX
Less: Cost of good sold		XXX
<b>Gross profit/ loss</b>		XXX
Less Operating cost-		
Office and administrative	XXX	
Selling and distributing	XXX	
<b>Net operating profit</b>		XXX

**Illustration:** From the following information of Simanta Food product as on 30 June 2017, you are required to prepare a Cost Sheet:

	Opening		Closing
<b>Stock:</b>	<b>Taka</b>		<b>Taka</b>
Raw materials	6,400		7,600
Work-in-process (Half finished)	12,300		15,000
Finished goods	10,500		8,700
Packing materials	1,000		800
<b>Purchase:</b>			
Raw materials	63,000		
Packing materials	3,000	Distribution expenses	2,000
Carriage in ward	1,000	Selling expenses	3,200
Wages	44,300	Salary of sales manager & sales man	5,000

Factory cost	8,600	Repair to factory building	2,200
Depreciation	4,400	Managing Director allowances	1,500
Office expenses	2,500	sales	1,79,000

**Solution:**

**Simanta Food product**  
**Cost of Goods Manufactured Statement**  
 for the period of half year ended on 30 June 2017

	Taka	Taka	Taka
Opening stock of Raw Materials		6,400	
Add: Purchase of Raw Materials	63,000		
Carriage in ward	<u>1,000</u>	64,000	
<b>Cost of Raw Materials Available</b>		70,400	
Less: Closing stock of Raw Materials		<u>(7,600)</u>	
<b>Raw Material Used</b>			62,800
Add: Wages			44,300
Add: Direct expenses: Opening stock of packing materials		1,000	
Add: Purchase of packing goods		<u>3,000</u>	
		4,000	
Less: Closing stock of packing goods		<u>(800)</u>	
			3,200
			<u>47,500</u>
<b>Prime cost</b>			1,10,300
Add: <b>Factory overhead</b>			
Production cost		8,600	
Factory depreciation		4,400	
Repair to Factory Building		<u>2,200</u>	
			15,200
<b>Production cost</b>			<u>1,25,500</u>
Add: Opening stock of Work-in-process			12,300
			<u>1,37,800</u>
Less: Closing stock of Work-in-process			<u>(15,000)</u>
<b>Cost of goods manufactured</b>			<u>1,22,800</u>

**Simanta Food product**  
**Cost of Goods Sold Statement**  
for the period of half year ended on 30 June 2017

	Taka
Opening stock of Finished goods	10,500
Add: Cost of goods manufactured	1,22,800
Cost of goods available for Sale	1,33,300
Less: Closing stock of Finished goods	(8,700)
<b>Cost of goods sold</b>	<b>1,24,600</b>

**Simanta Food product**  
**Comprehensive Income Statement**  
for the period of half year ended on 30 June 2017

		Taka	Taka
Sales			1,79,000
Less: Cost of goods sold			<u>(1,24,600)</u>
	<b>Gross profit</b>		<b>54,400</b>
Less: Operating cost.			
<u>Administrative Overhead:</u>			
Office Expenses	2,500		
Salary to Managing director	<u>1,500</u>	4,000	
<u>Selling Overhead:</u>			
Selling expenses	3,200		
Distribution expenses	2,000		
Salary of sales manager & salesman	<u>5,000</u>	<u>10,200</u>	
			<u>(14,200)</u>
	<b>Net Operating profit</b>		<b>40,200</b>

**Activity:** Following information is collected from the book of Sonali Manufacturing limited as on 31 December 2017

	Taka		Taka
Raw materials stock (1.10.2017)	7,500	Fuel & Power	1,250
Raw materials stock (31.12.2017)	9,500	Carriage inward	1,000
work-in-process stock (1.10.2017)	2,800	Carriage outward	1,500
work-in-process stock (31.12.2017)	3,600	Indirect wages	1,750
Finished good stock (1.10.2017)	5,400	Depreciation to machineries	2,500
Finished good stock (31.12.2017)	3,500	Direct expenses	1,100
Sales of Finished goods	65,000	Office rent	3,500

Raw materials purchase	7,000	Miscellaneous expenses	4,500
Direct wages	5,650	Salesmen salary & commission	2,250
		Miscellaneous office expenses	2,000
		Mass communicatioo expenses	1,700

Prepare Cost of goods manufactured statement, Cost of goods sold statement and Comprehensive Income statement

## Exercise

### Multiple choice question:

- Which one means Factory overhead?
  - Direct Raw materials + Indirect Raw materials + Direct wages
  - Direct Raw materials + Direct wages + Factory rent & electricity
  - Indirect wages + Depreciation of Furniture + repair to Machinery
  - Factory rent + Office rent + Shop rent
- The expenses include in production cost are -
  - Depreciation to machinery
  - Special expenses relating to contract received
  - Repair to furniture

Which one is correct?

  - i & ii
  - i & iii
  - ii & iii
  - i, ii & iii
- Which are the chargeable expenses related to show manufacturing?
  - Leather purchase
  - Gum purchase
  - Forma
  - Stitching cotton

On the basis of following information answer to the question no. 4, 5 & 6.

Prime cost 50,000 Taka, Factory overhead 10,000 Taka, Administrative overhead 5000 Taka, Selling overhead 3,000 Taka and profit 20% on total cost

- Amount of sales?
  - 81,600 Taka
  - 83,700 Taka
  - 84,500 Taka
  - 98,500 Taka
- Amount of profit is taka?
  - 12,600
  - 13,600
  - 15,600
  - 18,600
- Amount of total overhead?
  - 12,000 Taka
  - 18,000 Taka
  - 58,000 Taka
  - 68,000 Taka

7. Factory overhead costs are-

- i) Telephone bill
- ii) Showroom rent
- iii) Stationery purchase

Which one is correct?

- a) i & ii
- b) i & iii
- c) ii & iii
- d) i, ii & iii

8. Which one the is selling overhead cost?

- a) Advertising expenses
- b) Printing and stationary
- c) Repair to furniture
- d) Electric & telephone bill

9. Production cost = ?

- a) Cost of goods available for sale + Opening stock of finished goods
- b) Cost of goods available for sale + Closing stock of finished goods
- c) Cost of goods available for sale - Opening stock of finished goods
- d) Cost of goods available for sale - Closing stock of finished goods

10. What type of cost element is paper purchase for book publishing organization?

- a) Direct Raw material
- b) Indirect Raw material
- c) Factory overhead
- d) Office overhead

### Creative questions:

1. Transactions of Shahin Fruits Corner of Dhaka during the first week of June 2017 are as follows:

- 200 baskets of mangoes were purchased at tk.500 each from Rajshahi.
- 10 kg mangoes are in every basket. Total tk.5,000 paid truck fare and packing expenses tk.20 paid for each basket.
- After leaving the truck in Dhaka it's found that 10 baskets of mangoes are completely damaged and unfit for selling.
- Shop rent tk.2,000 paid weekly for selling mangoes and tk.1,000 paid for Sales commission.

- a) Determine the Quantity (in kg) of Saleable mango from the above information.
- b) Determine the total cost of sold mangoes of Shahin Fruit Corner.
- c) Determine the selling price of per basket and per kg mango assuming total cost tk.1,15,000 and 20% profit on cost.

2. Amin paper house purchased 10 reams of paper at the rate of taka 18 per quire. They paid for wages Taka 500 and carriage Taka 1,000. They spent taka 2,000 for hire of shop, electric & telephone bill tk.1,000 and taka 500 for salesman commission for purpose of paper selling. The paper house earned profit of taka 2 per quire of paper.
- Calculate the cost of per ream of paper of Amin paper house.
  - Determine total cost of per quire paper sold of Amin paper house.
  - Determine selling price of per quire of paper considering total cost tk.40,000 of sold papers of Amin paper house.
3. Shapla printers of Comilla have got the work order from Utara Bank head office for the printing of 5,500 Diary for year of 2017. Following expenses occurred for the purpose of above work:
- |  |   |             |
|--|---|-------------|
| Paper purchase                           | - | Taka 70,000 |
| Printing ink purchase                    | - | Taka 25,000 |
| Direct wages                             | - | Taka 12,500 |
| Gum and cotton purchase                  | - | Taka 5,000  |
| Factory rent                             | - | Taka 10,000 |
| Factory electricity                      | - | Taka 3,500  |
| Office and Administrative expenses       | - | Taka 12,000 |
| Entertainment expenses                   | - | Taka 1,500  |
| Bill collection expenses on tender price | - | 2%          |
| Tender price per Diary                   | - | Taka 35     |
- Calculate the conversion cost on Shapla printers.
  - Determine cost of production per Diary of Shapla printers.
  - Calculate profit or loss per Diary considering total production cost tk.1,25,000 of Shapla printers.
4. Sonali Garments Sold shirts worth tk.30,00,000 from 01 May to 31 May 2017. Production & selling expenses of shirts are as follows:

Clothes purchased tk.4,20,000.  
 Carriage cost tk.11,500.  
 Button and other materials purchased tk.42,000  
 Value of unused clothes tk.65,000.  
 Opening work-in-Process tk.72,000  
 Opening stock of finished shirts tk.1,45,000.  
 Closing stock of finished shirts tk.1,05,000.  
 Total wages of worker tk.12,00,000.  
 Showroom rent tk.21,300.

Incidental cost of factory tk. 52,000  
 Office rent tk. 18,000.  
 Telephone & Electricity bill tk. 9,000  
 Salesman Commission tk. 25,000

- Determine the cost of Raw Material Used from the above information.
- Determine the amount of Cost of Shirts Sold of Sonali Garments.
- Determine the amount of profit or loss considering the cost of goods sold tk. 18,50,000.

5. From 1st January to 31st March, 2017 Manufacturing expenses and selling expenses of bricks of Ashraf & Co. are as follows:

	Taka
Soil purchased	1,60,000
Carriage for soil	3,00,000
Fuel cost	2,00,000
Wages of worker	1,40,000
Rent & Electricity for brick field (per month)	10,000
Cost of Knending soil	20,000
Office rent (per month)	12,000
Conveyance & Telephone	14,000
Advertisement expenses	40,000
Salesman Salary	60,000
Sales (2,00,000 bricks)	16,00,000
Opening Stock of Finished Bricks (50,000 bricks)	2,50,000
Closing Stock of Finished Bricks (60,000 bricks)	2,43,000

- Determine the quantity of Bricks produced from the above information.
- Prepare a statement of cost (Quarterly) of Ashraf & Co.
- Determine the profit considering the production cost of bricks tk. 8,50,000.

**Note:** Opening finished Stock + Production Units = Sales Units + Closing finished Stock.

## Twelfth Chapter

### Accounting for family and self-employment Enterprise

To maintain smoothly and nicely, it is very important to have a well designed plan and an applicable accounting system at every sphere of life. Application of appropriate accounts of income and expenditure can make life well balanced and disciplined. So we have to spend money in our social and family life associated with income. It is not possible to spend on the basis of the income if the accounts of income and expenditure of the family are not maintained. Even without budgeting of income and expenditure a family can't be maintained properly. So every family needs to design appropriate plan for maintaining family accounts strongly. Also preparing budget for project is vital in the case of self-employment enterprise for making a person or a family become self reliant.



Photo: Self employment Projects

At the end of this chapter, we will be able to –

- explain the concept and characteristics of family accounting system.
- prepare a family budget.
- prepare the family financial statement.
- prepare budget for self-employment enterprise and also maintain the accounts there of.



### Concept of family accounting system:

Family is said to be the destination of happiness. For the sake of this happiness, each and every person thinks about living an improved family life. Planning is necessary to lead the family nicely and systematically and application of appropriate accounting is an indispensable part of that plan. A family without a financial plan can not be maintained properly. Without maintaining of family income and expenditure account, a family can not live a disciplined life. As a result family happiness may be disturbed. So maintaining of family income and expenditure account is also essential like business organizations. Family is not a business organization so accounting system is different since family is a non-profit making continuous organization. Like other organizations some financial transactions occur in a family. That is, there are some income and expenditure. So maintaining of family budget is essential. There should be predefined plan for maintaining the family smoothly and happily within the limit of income,

**Activity:** Why is family accounting system vital for peaceful life?

### Characteristics of family accounting system:

The salient features of family accounting system:

#### 1. Non-profit making organization:

Family is considered to be a non-profit making organization. Question of profit and loss does not arise here, so family can know surplus or deficit through preparation of income- expenditure account and financial statement at the end of a particular period.

#### 2. Assumption of separate unit:

Each family member of the family considered separately from the head for completing the accounts.

#### 3. Responsibilities:

Family accounts are not to be submitted to anyone. So there is no need of its audit or responsibility.

#### 4. Cash transaction:

Most transactions of the family are done in cash so it is easy for record keeping.

#### 5. Specific head:

In most of the cases, family transactions have some specific heads.

**Activity:** Why are the features of family accounting system different from the features of profit earning organization?

**Necessity of family accounting system:**

For happy and healthy life within the limit of income, it is essential for maintaining proper accounts. The necessity of family accounts is as follows:

**1. Proper Planning:**

Transparency can be ensured if accounts are kept properly, thus family ties can be enjoyed more vividly.

**2. Family Solvency:**

"Expenditure within income"-if this policy is followed, it may be possible to attain financial solvency and happiness of the family.

**3. Creation of values:**

Family accounting can ensure transparency which can help creating values and ethics between the family members.

**4. Family Budget:**

Preparation of family budget and with the help of it, proper management of family can be ensured by controlling all the income and expenditure.

**5. Saving and consumption Tendency:**

For better life style in future money should be saved from the present income. If accounts are kept properly, habit of unnecessary expenditure decreases and tendency of saving increases.

**6. Family Discipline:**

Possibility of arising of any dispute and misunderstanding among the head and other members of the family are least if accounts are kept systematically and properly.

**Activity:** Identify and explain some other necessities of family accounting rather than above mentioned necessities.

**Family Budget:**

Budget is a kind of numerical expression of planning. For achieving some specific purpose, numerical expression of pre-defined plan of income and expenditure of a stipulated time is known as budget. There is no hard and fast rule for the specific time frame; it may be weekly, monthly, or yearly. Family budget means future plan for income and expenditure of the family. Family budget is designed through a pre plan, based on the sources of income and sector wise demand for expenditure of a family. Budgeting helps to keep the family within a financial framework where over expenditure is not possible. If family is maintained within such financial framework i.e. budget, then we can live a better life with limited income.

**Procedure of Family Budget:**

It is essential to follow some steps to prepare a family budget. If a budget is prepared following the systematic procedure, implementation of the budget becomes easier. Steps are as follows-

- 1. Listing of necessary materials:** Prioritise the list of materials based on the need and demand of the family members for budget time frame.
- 2. Valuation of materials:**  
Price and cost of the product and services are to be determined for including the total cost of the product for budget preparation.
- 3. Determination of possible income:**  
Expenditure of family budget depends on income. So to make budget more effective, determination of income sources efficiently is needed to include them in the budget.
- 4. Maintaining balance in budget:**  
In each family, budget is prepared with a view to achieving optimum benefit within the limited income and thus to save for better future. That is why, we are to pay attention of maintaining equilibrium between income and expenses at the time of budget preparation.
- 5. Suitability of budget:**  
A family budget should be as such that it is practical and rational. Budget should be flexible so that in special cases if one or more expenditure increases then it can be set off by reducing other expenditures.

**Specification of family budget:**

Success of budget preparation and implementation mostly depend on socio-economic condition of the family. Forms, sizes, sources of income, taste and desire of the members etc. are to take into consideration strictly while preparing a family budget. Each family will have separate budget. It is not possible to prepare budget of same standard for each family. Over all family budgets can be prepared through equilibrium of income and expenditure. Sector wise allocation of expenses depends upon the structure of the family. For example, expenditure for food 20-30%, clothing 5- 10%, housing 30-40%, Education 10-15%, transportation 15-20% approximately.

A pro-forma of Statement of Family Budget is shown below:

**Name of the month** \_\_\_\_\_

(Number of family members-6)

**Income**

Description of Income	Expected Income (Taka)	Total Income (Taka)
Income from salary	40,000	
Other sources (rent, agriculture etc.)	10,000	50,000

**Expenditure**

Description of Expenses	Expected Expenses (Taka)	Total Expenses (Taka)	Percentage (%)
<b>1) Food Items:</b>			
Rice	1,575		
Pulses	300		
Oil	700		
Salt	75		
Flour	200		
Maida (White Flour)	100		
Noodles	200		
Tea and Sugar	150		
Spices	200	3,500	
<b>Kitchen items:</b>			
Fish	1,500		
Meat	1,000		
Chicken	1,200		
Eggs	700		
Vegetables	1,500		
Fruits	500		
Onion, Garlic and Ginger	400	6,800	
		10,300	21%
<b>2) Housing:</b>			
House rent	15,000		
Electricity	1,000		
Gas	400		
others	300	16,700	33%

<b>3) Clothing:</b>			
Purchasing cloths	500		
Sewing and Tailoring	300		
Washing and laundry	<u>200</u>		
		1,000	2%
<b>4) Education:</b>			
Tuition fees	1,000		
Books, work books and stationery	500		
Payment for private tutors	2,000		
Transportation	<u>1,000</u>		
		4,500	9%
<b>5) Medical Expenses:</b>		2,100	4%
<b>6) Personal Expenses:</b>			
Amusements and recreation		2,000	4%
<b>7) Other Expenses:</b>			
Guest entertainments	1,000		
Gifts and charity	1,000		
Subscription of newspapers	400		
Wages of the house-maid	<u>1,000</u>		
		3,400	7%
<b>8) Savings schemes:</b>			
Provident Fund	7,000		
D.P.S	<u>3,000</u>		
		10,000	20%
<b>Total Expenditure:</b>		50,000	100%

**Activity:** Identify the facilities of family budgeting from your view point.

### Preparation of Family Financial Statement:

Transactions relating to income and expenditure of the family are recorded in books of account. But scattered records can not depict the true financial picture of the family. That is why, preparation of financial statement is essential for finding actual financial picture. Financial statements show the income and expenses of the family for a particular period of time and statement of financial position depicts the financial strength i.e. state of family assets and liabilities. Steps of family financial statement are-

- 1) Receipts and Payments Account
- 2) Statement of Income and Expenditure
- 3) Statement of Financial Position

**1. Receipts and Payments Account:** From summary of family cash transactions an account is prepared at the end of the year by classifying and summarizing the transactions is called Receipts and Payments Account. Although it looks like a cash book of a business concern but it is not a cash book. It is the first step of family accounting system. This account is prepared by compiling all types of cash transactions.

All sorts of cash receipts are shown on the debit side and cash payments are shown on the credit side. Capital and revenue incomes of any year, which are received in this year in cash are shown on the debit side; and Capital and revenue expenses of any year, which are paid in this year in cash are shown on the credit side of the Receipts and Payments Account.

**2. Statement of Income and Expenditure:** At the end of the accounting period a statement is prepared to ascertain the excess or deficit of income over expenditure of the family, with the help of revenue nature income and expenditure relating to current year only is known as Statement of Income and Expenditure. In this statement if income is more than expenditure then we call it as surplus or excess of income over expenditure, and if the expenditure is more than income then we call it as deficit or excess of expenditure over income. Excess of income over expenditure increases the family fund while deficit reduces that fund.

**3. Statement of Financial Position:** Shortly it means a statement of assets and liabilities. That is, on a particular date, a statement is prepared showing all assets and liability of the family is known as Statement of Financial Position. Like business organizations, family also has some assets and liabilities. For example, assets are building, furniture, investment, cash and liabilities are loan, outstanding expenses, creditors etc. Families do not have any opening capital because it is not a business organization. But family fund is calculated here. Family fund is shown as liability in the Statement of Financial Position. Excess of income over expenditure from the Statement of Income and Expenditure is added with family fund and deficit is deducted from family fund.

A pro-forma of Receipts and Payments Account is shown below:

Receipts and Payments Account

Receipts	Taka	Payment	Taka
Balance b/d	***	Revenue nature expenses	***
Revenue nature income	***	Capital nature expenses	***
Capital nature income	***	Balance c/d	***
	****		****

**Features of Receipts and Payments Account:**

1. It is like a cash book of a business concern.
2. Left side starts with opening cash and bank balance and right side ends with closing cash and bank balance.
3. All receipts are shown on the left side and all payments are shown on the right side.
4. In case of this account, period is not a matter of consideration i.e. receipts and payments of current, previous and next year is recorded here in this book.
5. Transaction of current year's outstanding income or expenses is not recorded.
6. Quantitative figure of the left side is always greater than that of the right side because cash payments can never be greater than cash receipt.
7. Transaction relating to depreciation is not shown in this account.
8. Cash flow can be known from this account.

**Activity:** What kind of role can be played by the Receipts and Payments Account while preparing family account?

**Procedure of preparing Statement of Income and Expenditure from Receipts and Payments Account:**

1. Revenue nature incomes are recorded on the income side and revenue nature expenses are recorded on the expenditure side of Statement of Income and Expenditure.
2. Opening and closing balances of Receipts and Payments Account are not needed to show in the Statement of Income and Expenditure.
3. Capital nature income and expenditures are not shown in the Statement of Income and Expenditure.
4. Only revenue nature income and expenditures are shown in the Statement of Income and Expenditure.
5. Only current year's revenue nature income and expenditures are shown in the Statement of Income and Expenditure.
6. Income and expenditures relating to previous or next year will not be shown in the Statement of Income and Expenditure.
7. Transactions relating to purchase and sale of assets will not be shown in the Statement of Income and Expenditure.
8. Income receivables and outstanding expenses of current year will be included in the Statement of Income and Expenditure.
9. Depreciation will be shown on the expenditure side of the Statement of Income and Expenditure.

**Activity:** Identify items of the Receipts and Payments Account which will not be included in the Statement of Income and Expenditure.

### **Procedure of preparing Statement of Financial Position from Receipts and Payments Account:**

Basic objective of preparing the Statement of Financial Position is to take perception of assets, liabilities and family fund at a particular point of time at the end of the year.

**Procedures are given below:**

1. Family fund is calculated by deducting the opening liabilities from the opening assets of a family.
2. Capital nature incomes of the Receipts and Payments account are shown on the liability side and Capital nature expenditures are shown on the assets side of the Statement of Financial Position.
3. Closing cash and bank balances of the Receipts and Payments Account are shown on the assets side of the Statement of Financial Position.
4. Depreciation is to be deducted from respective assets are shown on the assets side of the Statement of Financial Position.
5. All unearned incomes are to be shown on the liability side and all prepaid expenses are to be shown on the assets side of the Statement of Financial Position.
6. Excess of income over expenditures of the Statement of Income and Expenditure are to be added with Family fund and deficits are to be deducted from the Family fund on the liability side of the Statement of Financial Position.
7. Opening cash and bank balances of the Receipts and Payments Account will not be considered in case of preparation of the Statement of Financial Position. Those balances will be used in case of determining the Family fund.

**Activity:** Identify the items of the Receipts and Payments Account which will be included in calculating the Family fund.

#### **Illustration- 01**

Mrs. Rubina who works in Govt. organisation maintains family with her salary & the income that comes from her husband's business. Information of her family's income and expenditures mentioned below:

Monthly salary tk. 35,000; House rent paid tk. 18,000 per month, Food Materials total expense for whole year tk. 1,20,000; Medicine & Doctors fees tk. 25,000; Profit from business tk. 4,80,000; Clothes purchased tk. 32,000; Profit from business tk. 4,80,000; Clothes purchased tk. 32,000; Education expenses tk. 95,000; Dining table purchased tk. 42,000; Income Tax paid tk. 16,000; Computer & Printer purchased tk. 76,000; Gas, Water & Electricity bill paid tk. 38,000; Deposit to DPS tk. 60,000.



**Other information:**

On 1st January 2017 her family condition was- Cash in hand tk. 22,000 & Furniture tk. 1,68,000.

At the end of year, Gas & Water bills are due tk. 24,000.

Required: From the above information you are required to prepare Receipts & Payment Account, Statement of Income & Expenditure and Statement of Financial Position.

**Solution:**

**Mrs Rubina's Family's'**  
**Receipts & Payments Account**  
**for the year ended 31st December 2017**

Debit		Credit	
Receipts	Taka	Payments	Taka
Cash Fund (1-1-2017)	22,000	House Rent (18,000 × 12)	2,16,000
Salary (35,000 × 12)	4,20,000	Spent for Food Products	1,20,000
Profit from business	4,80,000	Medicine & Doctors fees	25,000
		Clothes purchase	32,000
		Education expense	95,000
		Dining Table purchased	42,000
		Income Tax paid	16,000
		Computer & Printer purchased	76,000
		Gas, Water & Electricity bill	38,500
		Deposit to DPS	60,000
		Cash in hand (31-12-2017)	2,01,500
	<u>9,22,000</u>		<u>9,22,000</u>

**Mrs Rubina's Familys'**  
**Statement of Income & Expenditure**  
**for the year ended 31st December 2017**

Receipts	Taka	Taka	Taka
<b>Incomes:</b>			
Salary Received		4,20,000	
Profit from business		4,80,000	
			9,00,000
<b>Less: Expenditures:</b>			
House Rent		2,16,000	
Food Products		1,20,000	
Medicine & Doctors fee		25,000	
Clothes purchases		32,000	
Educational expense		95,000	
Income Tax paid		16,000	
Computer & Printer purchased	38,500		
Gas, Water & Electricity bill	24,000		
		62,500	
			(5,66,500)
<b>Surplus of Income</b>			<u><u>3,33,500</u></u>

**Mrs Rubina's Family's  
Statement of Financial Position  
as on 31st December, 2017**

	Taka	Taka	Taka
<b>Assets:</b>			
Cash in hand		2,01,500	
Furniture	1,68,000		
Add: Dinning Table purchase	42,000		
		2,10,000	
Computer & Printer		76,000	
Deposit to DPS		60,000	
<b>Total Assets</b>			<b>5,47,500</b>
<b>Liabilities:</b>			
Gas, Water & Electricity bill due		24,000	
Family Fund (Note-1)	1,90,000		
Add: Surplus of Income	3,33,500		
		5,23,500	
<b>Total Liabilities &amp; Closing Family Fund</b>			<b>5,47,500</b>

Note: Calculation of Family Fund:

$$\text{Cash} + \text{Furniture} = (22,000 + 1,68,000) = 1,90,000$$

**Illustration: 2**

Assets and Liabilities of Osman Gani as on 1 January 2017 are- House 20,00,000; Furniture 20,000; Croceries 13,000; House building Loan 15,00,000. His Received and Payment account of that year are as follows:

## Receipts and Payments Account

Receipts	Taka	Payments	Taka
Received from Salary	2,50,000	Food purchase	40,000
Income from agriculture	20,000	Bill for grocer shop	2,280
Sale of old newspaper	2,000	Municipal tax	3,220
		Computer purchase	50,000
		Int. on house building loan	10,000
		Television purchase	32,000
		Refrigerator	60,000
		Water, Gas & Electricity	5,600
		Entertainment	7,000
		Stationery	2,500
		News paper bill	4,800
		Conveyance and other	4,400
		Post office saving bank deposit	48,000
		Cash in hand (31/12/2017)	2,200
	<u>2,72,000</u>		<u>2,72,000</u>

**Prepare:** Income Statement for the year ended 31 December 2017 and Financial Statement as on 31 December 2017.

**Solution:**

**Mr. Osman Gani**  
**Income Statement**

For the year ended 31 December 2017

Particular	Taka	Taka
<b><u>Income:</u></b>		
Salaries	2,50,000	
Agricultural Income	20,000	
Sale of old news paper	<u>2,000</u>	
<b>Total Income</b>		<b>2,72,000</b>
<b><u>Expenditure:</u></b>		
Food purchase	40,000	
Bill for grocery shop	2,280	
Municipal tax	3,220	
Interest on house building loan	10,000	
Gas, Water and Electricity	5,600	
Entertainment	7,000	
Stationery	2,500	
Newspaper bill	4,800	
Conveyance and other	<u>4,400</u>	
<b>Total expense</b>		<b><u>79,800</u></b>
<b>Surplus /Excess of Income over Expenditure</b>		<b><u>1,92,200</u></b>

**Mr. Osman Gani**  
**Statement of Financial Position**  
**as on 31 December 2017**

	Taka	Taka	Taka
<b>Assets:</b>			
House		20,00,000	
Furniture		20,000	
Crockeries		13,000	
Computer		50,000	
Television		32,000	
Refrigerator		60,000	
Post office saving bank deposit		48,000	
Cash in hand		<u>2,200</u>	
<b>Total Assets</b>			<b>22,25,200</b>
<b>Liabilities and Family Fund:</b>			
House building loan		15,00,000	
Family Fund	5,33,000		
(+) Surplus	<u>1,92,200</u>	<u>7,25,200</u>	
<b>Total Liabilities and Family Fund</b>			<b><u>22,25,200</u></b>

Note: Calculation of Family Fund:

Family fund = Opening Assets – Opening Liabilities

= House + Furniture + Crockeries – House building loan

= (20,00,000+20,000+13,000) -15,00,000 = Tk. 5,33,000

**Activity:**

Mr Aziz is a doctor. He earns money from private practice beside his service.

His Receipts and Payment for the year ended 31 December 2017 are as follows:

**Receipts and Payment Account**  
for the year ended 31 December 2017

Receipts	Taka	Payment	Taka
Cash in hand (01-01-2017)	25,000	Investment on Share	1,00,000
Cash at Bank (01-01-2017)	35,000	Food purchase	40,000
Income from Salary	2,50,000	Driver salary	60,000
Income from private practice	1,20,000	Car repair & Fuel exp.	45,000
Income from house rent	30,000	Education expenses	50,000
		Income Tax	31,000
		Computer purchase	40,000
		Interest on Loan	20,000
		Gas, Water & Electricity exp.	37,000
		Almira purchase	15,000
		Cash in hand (31-12-17)	22,000
	4,60,000		4,60,000

Assets and Liabilities are as follows as 1.1.2017:

Furniture- tk.1,25,000; House tk.5,00,000; Utensils tk.40,000; Car tk.7,50,000 & Loan tk.2,00,00.

Other information on 31.12.17:

- a) Salary tk.7,000 due for current year.
- b) Rent tk. 3,200 not yet realised.
- c) Driver's salary due tk.2,400.

**Required:**

1. Calculate Family Fund of Mr. Aziz's family.
2. Prepare Income and expenditure statement of Mr. Aziz's family for the year ended 31 December 2017.
3. Prepare Statement of financial position Mr. Aziz's on that date.

## Exercise

### Multiple choice questions:

1. In the light of Accounting, family means-
  - a) Profitable organization
  - b) Non profitable organization
  - c) Ongoing profitable organization
  - d) Ongoing non profitable organization
2. Maximum family transaction occurred in-
  - a) Cash
  - b) Cheque
  - c) Credit
  - d) Free of cost
3. Preparation of family budget on the-
  - a) Basis of expected income
  - b) Basis of actual income
  - c) Basis of expected income and expenditure
  - d) Basis of actual income and expenditure
4. To record in Receipt and payment account-
  - i. Capital nature income
  - ii. Revenue nature income
  - iii. Reveoue nature expenditure

Which one is correct?

  - a) i & ii
  - b) i & iii
  - c) ii & iii
  - d) i, ii & iii
5. To record in family Income-Expenditure statement-
  - a) Revenue nature income of current year
  - b) Revenue nature expenditure of current and last year
  - c) Revenue nature expenditure of current and next year
  - d) Revenue nature expenditure of last, current and next year
6. How many steps have used for preparation of Family Financial Statement?
  - a) 02 steps
  - b) 03steps
  - c) 04 steps
  - d) 05 steps

7. Which one is family revenue nature expenditure?

- i) Construction of building
- ii) Education expense
- iii) Maintenance of assets

Which one is correct?

- a) i & ii      b) i & iii      c) ii & iii      d) i, ii & iii

8. Which one is first step for preparation of family budget?

- a) Listing of necessary goods
- b) Determination of possible income
- c) Determination of value of goods or service.
- d) Data collection for demand and supply of goods or services

9. Steps for family financial statement-

- i. Cash account
- ii. Received-payment account
- iii. Income-expenditure statement

Which one is correct?

- a) i & ii      b) i & iii      c) ii & iii      d) i, ii & iii

### **Creative questions:**

1. Mr. Ahsan Habib has served in a private organization, his monthly salary tk.12,000. In addition to he got tk. 5,000 honorarium per month by giving part time lecture in a college. In 1<sup>st</sup> January 2017 his cash in hand tk. 2,00,000 and DPS tk. 1,00,000. Following are the transactions of his family of whole year:

Purchase of food materials tk. 30,000. House rent tk. 80,400. Daily shopping expenses tk.24,000. Furniture purchase tk.15,000. Grocery and stationery bill tk. 2,500. Gold purchases tk.60,000 and deposit to DPS tk. 24,000.

- a) Calculate family fund of Mr. Ahsan Habib.
- b) Calculate closing family cash in hand of Mr. Ahsan Habib.
- c) From the above information's calculate family surplus or deficit.

2. Followings are the family information of Dr. Mahedi as on 1 January 2017:

Building tk.10,00,000, Furniture tk.90,000, Investment tk.10,000, Gold tk. 80,000, Cash in hand tk. 3,000 and bank loan tk. 6,000.



**Family Receipt and Payment account of Dr. Mahedi**  
**For the year ended 31 December 2017**

<b>Receipts</b>	<b>Taka</b>	<b>payments</b>	<b>Taka</b>
Cash in hand (1-1-17)	3,000	Purchase of food materials	60,000
Salary	3,63,000	Daily shopping	1,20,000
Interest on investment	1,500	Television purchase	23,000
Income from patient visit	1,20,000	Newspaper	3,500
		Educational expenditure	28,000
		Gas, water and electricity	21,000
		Bank fixed deposit	25,000
		Balance (31-12-17)	7,000
	<b><u>4,87,500</u></b>		<b><u>4,87,500</u></b>

**Other information's:**

1. Gas, Water and Electricity are still due for tk. 1,500.
  2. Interest on investment one yet received for tk. 1,000.
- a) Calculate family fund of Dr. Mahedi.
  - b) Prepare his Family Income-expenditure statement for the year ended 31 Dec. 2017.
  - c) Prepare his Statement of financial position on that date.

3. Mr. Hannan is serving in a private organization. His monthly salary tk.30,000 and gets bonus tk.20,000 twice in a year. On 1st January, 2017 his family's condition was: cash in hand tk.12,000; House tk.5,50,000; Equipment tk.6,000; Loan from colleague tk. 40,000.

Following are the transactions of his family of whole year:

Food material purchased tk.78,000; Loan paid to colleague tk.30,000; Medicine & Doctor fees tk. 18,000; Repair expenses of house tk 31,000; Mobile Set purchased tk.14,000; Electricity & Telephone expenses tk.8,600; Clothes purchased tk.7,500; Sold agriculture crops tk.48,500; Refrigerator purchased tk.36,000; Education expenses tk.42,000; Deposit of DPS tk.36,000.

Beside this, Electricity bill is due tk. 3,400.

- a) Calculate the opening family fund from the above information.
- b) Calculate the closing cash fund of Hannan's family as on 31st December, 2017.
- c) Prepare a statement of family Income and Expenditure of Hannan's Family.

4. On 1st January, 2017 The financial position of Mr.Naruu Mia's family is as follows:  
 Cash fund tk. 20,000; House tk. 3,50,000; Utensils tk. 25,000; Furniture tk. 50,000;  
 and 12% Loan tk. 60,000.His Receipts and payments account for the year ended is  
 as follows:

**Receipts and Payments Account**  
**for the year ended 31st December 2017**

Debit		Credit	
Receipts	Taka	Payments	Taka
Balance B/D	20,000	Food purchased	77,500
Salary	1,80,000	Repair of House	8,000
Sold old Table	5,000	Fridge purchased	28,000
Sold agricultural crops	30,000	Electricity Bill	6,000
Profit from Pharmacy Business	75,000	Treatment expenses	3,500
		Deposit to DPS	48,000
		Cycle purchased	12,000
		Education expenses	14,500
		Clothes purchased	16,700
		Interest on loan	5,800
		Balance C/D	90,000
	<u>3,10,000</u>		<u>3,10,000</u>

Other information:

- i) Stock of Food Products tk. 1,000.
  - ii) Two months electricity bill due.
- a) Determine the amount of Capital Expenditure of family in current year.
  - b) Prepare a Statement of family Income and Expenditure from the above information
  - c) Prepare a Statement of Financial position as on 31st December 2017  
 considering the Family Fund tk. 3,85,000.

# Answer Sheet

## Chapter Eight

Creative question of Exercise: 1. b) Amount of cash memo tk.28,500. c) Closing cash in hand tk.96,000 2. a) Value of office equipment tk.78,000.b) Closing cash in hand tk. 32,000 & Bank balance tk.1,55,000. c) Closing cash in hand tk.1,00,000, Bank balance tk.57,500, Discount allowed tk. 1,000 & Discount received tk.5,000 3. a) Tk.58,500. b) Total of cash receipts journal, Cash tk.1,29,250, Discount allowed tk.750, Sales tk.45,000, Debtors tk.25,000 & other account tk.60,000. c) Total of cash payments journal, Purchase tk.25,000, Creditors tk.30,000 Other accounts tk.24,000, Discount received tk.1,000 & cash tk.78,000. 4. b) Closing cash in hand tk.60,700. c) Closing cash in hand tk.52,000 & Bank balance tk.3,500. 5. a) Total amount of contra entry tk.16,000. b) Closing cash in hand tk.19,250 & Bank balance tk.26,000. c) Closing cash in hand tk.42,500, Bank overdraft tk.1,000, Discount allowed tk.200 & discount received tk.200. 6. a) Amount of cash discount tk.300. b) Total of cash receipts journal, Cash tk.27,000, Discount allowed tk.100, Sales tk.7,600, Debtors tk.5,500 & other account tk.14,000. c) Total of cash payments journal, Purchase tk.28,500, Creditors tk.3,500 Other accounts tk.3,000, Discount received tk.200 & Cash tk.34,800.7. b) Closing cash in hand tk.2,500, Bank overdraft tk.3,000, Discount allowed tk.150 & discount received tk.150. c) Total of cash payments journal, Purchase tk.7,000, Creditors tk.9,000, Other accounts tk.5,500, Discount received tk.400 & Cash tk.21,100.

## Chapter Nine

Creative question of Exercise:1. a) tk.27,000. b) Total of Trial Balance tk.1,75,500. c) Revenue income 50,500 & Revenue expenses 52,500. 2. a) Tk.41,000. b) Total of Trial Balance tk. 2,23,000 & Suspense Account (credit) tk.10,000. c) Capital expenditure tk.95,000 & Revenue expenses tk.20,000. 3. a) tk.80,000. b) Revenue expenses tk.1,61,000. c) Total of Trial Balance tk.2,94,000. 4. a) Tk.37,000. b) Total of Trial Balance tk.2,79,500. c) Revenue income tk.1,67,500 & Revenue expenses tk.1,51,500. 5. a) tk.2,85,000. b) Assets tk.1,65,000 & Liabilities tk.1,32,000. c)Total of Trial Balance tk.4,72,000. 6. a) Adjusted purchase tk.2,65,000. b) Total of Trial Balance tk.8,70,000. c) Closing owner's equity tk.3,56,500.

### Chapter Ten

Creative question of Exercise:

1. a) Current liabilities tk.1,00,000 . b) Excess of income over expenditure tk.2,31,000. c) Total Assets tk.6,21,000.
2. a) Net sales tk.4,08,000. b) Cost of goods sold tk.2,81,500. c) Net profit tk.35,000.
3. a) Cost of goods sold tk.80,000. b) Operating loss tk.2,000 & Net profit tk.6500. c) Total of statement of financial position tk.2,39,000.
4. a) Gross profit tk.1,73,000 b) Net profit tk.60,000. c) Total of statement of financial position tk.2,84,000.
5. a) Closing cash in hand tk.25,000. b) Gross profit tk.1,29,800. c) Operating profit tk.60,875 & Net profit tk. 61,575.
6. a) Cost of goods sold tk.2,28,000. b) Operating loss tk.37,000 & Net loss tk. 27,000. c) Total of statement of financial position tk.4,69,000.
7. a) Net current assets tk.1,40,500. b) Gross profit tk.1,41,200. c) Operating profit tk.57,000 & Net profit tk.99,800.
8. a) Current liabilities tk.15800. b) Closing owner's equity tk.295200. c) Total Assets tk.3,11,000.
9. a) In the year 2016 tk.74,000 & 2017 tk. 76,500. b) Net profit ratio 7.67% & profit on capital employed ratio 13.8%. c) Current ratio 1.16:1 & liquidity ratio 1.06:1.
10. a) Liquidity ratio 1.27:1. b) Net profit tk.23,000. c) Total of statement of financial position tk.1,62,000.
11. a) Net value of fixed assets tk.1,02,600. b) Net loss tk.15,400. c) Closing owner's equity tk.1,67,000.
12. a) Net debtors tk. 37,632. b) Gross profit tk.57,500. c) Operating profit tk.50,132 & Net profit tk.51,132.

### Chapter Eleven

Creative question of Exercise:

1. a) Saleable mangoes 1,900 kg. b) Total cost Net profit tk.1,12,000. c) Selling price of each basket tk.726.32 & Selling price of per kg tk.72.63.
2. a) Cost price of each ream of paper tk.375. b) Total cost of each quire paper tk.20.50 c) Selling price of each quire paper tk.22.
3. a) Conversion cost tk.31,000. b) Production cost of each dairy tk.22.91. c) Profit of each dairy tk.9.12.
4. a) Cost of used raw materials tk.3,66,500. b) Cost of sold shirts tk.1,77,2500. c) Net profit tk.10,76,700.
5. a) Produced Brick 2,10,000 pcs. b) Production cost tk.8,50,000. c) Net profit tk.5,93,000

## Chapter Twelve

Creative question of Exercise:

1. a) Family fund tk.3,00,000. b) Closing cash in hand tk.1,57,100. c) Excess of income over expenditure tk.56,100. 2. a) Family fund tk. 11,77,000. b) Revenue Surplus tk.2,51,500. c) Total of statement of financial position tk.14,36,000. 3. a) Family fund tk.5,28,000. b) Closing cash in hand tk.1,59,400. c) Revenue Surplus tk.2,60,000. 4. a) Capital expenditure tk.40,000. b) Revenue Surplus tk.1,51,400 c) Total of statement of financial position tk. 5,99,000.

**The End**

**2018**

**Academic Year**

**9-10 Accounting**

শিক্ষা ও জ্ঞান অর্জনের মাধ্যমেই জীবনে সাফল্য অর্জন করতে হবে  
- মাননীয় প্রধানমন্ত্রী শেখ হাসিনা

## আত্মবিশ্বাস সাফল্যের চাবিকাঠি

স্বামী ও স্ত্রী নির্ধারিতের ঘটনা ঘটলে প্রতিবার ও প্রতিবছরের জন্য মাসিকভাবে স্কলারশিপ দেওয়া হবে  
১০০০ টাকা-এ (এক হাজার টাকা) মাসিকভাবে দেওয়া হবে



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